The New York Certified Public Accountant

VOL. XIV *December · 1944* NO. 15

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Published by

THE NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
15 E. 41st STREET · NEW YORK 17, N. Y.

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Managing Editor

THE NEW YORK CERTIFIED PUBLIC ACCOUNTANT
is published monthly. Copies may be obtained at the office of the Society at twenty-five cents per copy, $3.00 per year.

The matter contained in this publication, unless otherwise stated, will not be binding upon the Society, and it should be understood that any opinions expressed in articles published herein are the opinions of the authors of the articles, respectively, and are not promulgated by the Society.

STATE SOCIETY ACTIVITIES

Calendar of Events

December 6—Wednesday—7 P. M. —Tax lecture and forum session: Location: Engineering Auditorium, 29 West 39th Street, New York. Subject: **Consolidated Income and Excess Profits Tax Returns.** Speaker: Walter A. Cooper.

December 11 — Monday — Regular meeting of the Board of Directors.

December 11—Monday—7:30 P. M. —Regular meeting of the Society. Location: Waldorf-Astoria Hotel, Lexington Avenue & 49th Street, New York. Subject: **State Taxation.** Speaker—to be announced.

December 13—Wednesday—7 P. M. —Tax lecture and forum session. Location: Engineering Auditorium, 29 West 39th Street, New York. Subject: **Methods of Proving Section 722 Relief Claims.** Speaker: Paul D. Seghers.

December 21—Thursday—7 P. M. —Tax lecture and forum session. Location: Engineering Auditorium, 29 West 39th Street, New York. Subject: **Family Partnership and Related Problems.** Speaker: Benjamin Grund.

January 5—Friday—7 P. M.—Tax lecture and forum session. Location: Engineering Auditorium, 29 West 39th Street, New York. Subject: **Tax Aspects of Wage and Salary Stabilization.** Speaker: H. Kenneth Marks.

January 8—Monday—Regular meeting of the Board of Directors.

January 8—Monday—7:30 P. M.—Regular meeting of the Society. Location: Waldorf-Astoria Hotel, Lexington Avenue & 49th Street, New York. Subject: To be announced.

January 16—Tuesday—7 P. M.—Special technical meeting—Location: Engineering Auditorium, 29 West 39th Street, New York. Subject: Wage and Salary Stabilization. Speaker: Ben Greenberg.

New Director Elected at the November 27 Meeting of the Board of Directors

Mr. Charles T. Bryan of Charles T. Bryan and Company, New York, was elected as a director for one year to fill the vacancy caused by the elevation of Prior Sinclair from director to second vice-president. Mr. Bryan has been a member of the Society since 1920 and has served actively as a member or chairman of many committees of the Society.

Notes

This issue is the last in Volume XIV, Volume XV starting with the January 1945 Issue. The attention of members is called to the fact that a Volume of The New York Certified Public Accountant may be bound at the cost of two dollars.

Announcement of

1945 PRIZE ESSAY CONTEST

The Board of Directors of the Society has authorized the Committee on Publications to conduct a prize essay contest, the essays to be on a subject of interest to the accounting profession and suitable for publication in The New York Certified Public Accountant. Prizes in the amount of $150 for first prize, $100 for second prize, and $50 for third prize are offered.

The general rules of the contest are as follows:

All papers shall be original and the manuscript shall be typed in duplicate on 8½ x 11 stationery, double or triple space typing, and should not be more than 5000 words.

★

The name of the individual submitting the paper should not appear thereon, nor should there be any other means of identifying the manuscript, which should be accompanied by a covering letter giving the contestant's name and address.

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When submitted to the judges, each manuscript will be given a key number of identification.

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Manuscripts should be forwarded to The Managing Editor of The New York Certified Public Accountant, 15 East 41st Street, New York 17, N. Y., on or before May 1, 1945. Awards will be announced as soon thereafter as possible.

★

All papers submitted shall become the property of the New York State Society of Certified Public Accountants and shall be available for publication in The New York Certified Public Accountant. The decision of the judges shall be final as to what papers may be entitled to prizes.

Wage and Salary Stabilization

(Answers to some of the questions presented at the session on wage and salary stabilization at the Eleventh Annual Regional Chapter Conference at Lake George, New York.)

Questions were also presented about the accountants' responsibility in the preparation of financial reports and income tax returns in cases of possible non-compliance by clients with wartime laws and regulations. These questions provoked considerable discussion indicating wide dffer-ences of opinion among practitioners. As a result, the Committee on Wartime Economic Controls has undertaken a study of the entire subject. Pending formulation of policy with respect to the matter, it was deemed advisable to defer publication of the questions and answers on this phase of the discussion.

Question: "Will you, Mr. Martindale, please explain the purposes and objectives of wage and salary stabilization and the methods by which Stabilization is being accomplished?"

Mr. Martindale (of the New York Regional Office of the National War Labor Board): I think you must all be pretty well aware of the basic purposes and objectives of wage and salary stabilization. Wage and salary stabilization is, of course, one of the seven-point program enunciated by the President a couple of years ago to prevent inflation under the pressure of wartime manpower and material shortages. Control of wages and salaries under such conditions is necessary not only because there are so many pressures which would force wages and salaries up, but also because many of the normal economic conditions which help to keep wages and salaries down have disappeared, particularly in the case of employers who are working on a cost-plus contract basis and are not reluctant to grant wage increases as long as the cost is passed on to somebody else and as long as it permits them to get their pick of the tight labor market. If there were not some control over wage and salary increases we should shortly be in the inflationary spiral everybody is anxious to have us avoid. I don't think there is any major country engaged in this war which doesn't have one form or another of wage and salary stabilization.

The method by which stabilization is being achieved is by the executive orders of the President, which were issued in accordance with "An Act to Aid in Preventing Inflation and for Other Purposes", adopted by Congress on October 2, 1942. These executive orders provided that no employer could grant increases (or, incidentally, make decreases) in his wages and salaries without getting the permission either of the War Labor Board or the Salary Stabilization unit of the Treasury Department.

The stabilization of wages, became effective October 3, '42, and it wasn't very long after that that the President and his advisers realized that they would also have to put a control on salaries, so that, on October 27, 1942, an additional executive order including salaries, under Stabilization, was adopted. That was necessary not only because uncontrolled salaries in themselves would constitute an inflationary danger, but because a lot of employers were already talking about putting their wage earners on a salary basis so

they could make increases without any limitations.

After the President had authorized the War Labor Board to control wages, the Board immediately set up regional offices. Prior to that time the Board, handling only dispute cases, had had a national office in Washington, and had found no need for branch offices; but it was obvious that the job of wage stabilization could not be carried on in just one national office, so thirteen regional offices were established in the largest cities in the country and control over most cases was gradually transferred to these regional boards. The Board also very early in the game discovered that it couldn't possibly rule on every individual increase which any employer wanted to give to an individual.

The purpose of wage stabilization was not to freeze the wage for an individual but to freeze the wage for a particular type of work unless it was, for that particular type of work, so low as to constitute a gross inequity or a substandard wage, or unless there were increases due under the Little Steel Formula. But with those three exceptions the wages for a particular type of work were to be frozen as of September 15, '42. That didn't mean that an individual who had been an unskilled operator of a machine had to remain at his wages for that job if he acquired additional skills and took on a new job; as long as the rate for a particular job was not increased, there was no inflationary danger.

So the War Labor Board issued general orders permitting employers under certain conditions to grant individual increases, providing they didn't raise the level of their rate of pay for a particular type of work; and they also issued another general order exempting employers of eight or less from the regulations of the Board in order to cut down the case load of the Board to a size where it might conceivably be handled. If we had had to handle applications from every employer throughout the country, we never should have been able to do the job.

Aside from increases to individuals permissible under General Orders 5, 6 and 9, and increases for small establishments permissible under General Order 4, no employer could grant increases to his employees without the approval of the Board, and the Board would approve such increases on only one of three grounds which I mentioned briefly a minute ago:

The first, of course, is the Little Steel Formula. Back in May of '42 before wage stabilization was in effect but when in handling its dispute cases the Board was attempting to work out an equitable method of determining what general increases a group of employees were entitled to, they worked out, in a case involving the little steel companies, a formula which would grant the same general increase in wage rates as the increase in the cost of living. The Index of Cost of Living prepared by the Bureau of Labor Statistics showed that the cost of living had been relatively stable up until about January, '41, and that from January 1, 1941 until May 15, 1942, the cost of living had increased 15%; so the War Labor Board said that any group of workers who had not received increases totaling 15% since January, 1941, would be entitled to enough additional increase to raise them to that level.

Since May, 1942, the cost of living—even according to the Bureau of Labor Statistics' index—has gone up a few more points. I believe the latest figure shows an increase of about 25% since January, 1941, but the War Labor Board has stuck to the 15% figure on the grounds that the cost of living was being controlled as much as possible and that, if each time the cost of living went

up five points the Little Steel Formula were revised and another five points permitted in wage increases, the spiral could not be controlled; and that as long as the two figures did not become too widely separated they were going to stick to the 15%.

The second basis on which the Board would approve increases would be to eliminate substandards of living, and the Board has adopted a rough guide on that angle of its wage stabilization program, saying that any wages below 50¢ an hour are substandard and increases up to 50¢ an hour will be approved. The Board is now considering issuing a new General Order which will permit increases up to 50¢ an hour without Board approval. I think a good many employers for some time have had the impression that they could make increases up to 50¢ an hour without our approval and may possibly have gone ahead and done so. Approval of increases up to 50¢ is practically automatic. There are a couple of industries where the wage levels in certain areas were so low that regional boards hesitated to permit increases even up to 50¢ an hour; but I think, even in those isolated cases, conditions have now changed so that an increase up to 50¢ an hour is automatically approved in any industry in any region, and for that reason the National Board is considering issuing a General Order permitting it without our approval so that neither the employer nor ourselves have to be bogged down with unnecessary paper work.

The third basis on which the Board would approve increases would be to eliminate gross inequities. When Executive Order 250 was adopted on October 3, 1942, it provided that the Board could grant increases on that basis, and neither the Board nor anybody else knew just what yardstick could be applied to decide when gross inequities existed and had to be eliminated. For some months the Board proceeded on a case-to-case basis, and if an employer came in and said his wages for a certain type of work were lower than those of his competitor next door who did the same type of work, we'd probably permit an increase to bring him up to the same level. Then the employer next door would come in and say, "Ever since I've been in business I've paid higher wages than the guy next door, because I did a finer grade of work. Now you have permitted him to grant an increase up to my level, so you now have to permit me an increase to restore the differential I have always had over my competitor." Then we'd scratch our heads and wonder whether that was a good case or not.

While even in those early days we certainly did exercise control over wages, we didn't have a very clear-cut standard; so that in April, 1943, the President issued a new Executive Order, commonly referred to as the "Hold-the-Line Order", in which he dropped gross inequities as one of the bases on which the Board might approve wage adjustments. By that time almost all employers had exhausted the Little Steel Formula and, in New York State at least, there were very few that paid less than 50¢ an hour; so I think more than 80% of the applications pending before us would have had to be denied if we couldn't approve them on the basis of gross inequities, and the same was true in most of the big industrial areas in the country.

There was a period, then, of about five weeks, in which the Board just sort of sat tight, trying to keep the lid on the kettle in spite of all the pressure from both employers and unions to get some of those applications approved in spite of the new order of the President. In the meantime the Board was discussing the

whole issue with Justice Byrnes, who was then Director of Economic Stabilization. Finally, on May 12, 1943, Byrnes issued his supplementary directive to the President's Executive Order, which restored the authority of the Board to grant increases to eliminate gross inequities, but established a fairly clear-cut limit within which such increases could be approved. Increases could be approved up to the minimum of the bracket of sound and tested rates. Byrnes's theory was that for each type of work in every industry we should get a frequency distribution of the rates being paid, and pick out the lowest figure at which a substantial number of employees were hired and the highest figure, and that would constitute the bracket of sound and tested rates; anything above the highest figure was unsound because it was abnormally high, and anything below the lowest figure was unsound because it was abnormally low and, in the case of that latter group, we might permit increases up to the minimum of the bracket.

It was hard enough to get good statistical data in the form of average wages for any particular type of work in any area, let alone getting frequency distributions of all the rates being paid; so, in applying this minimum of the bracket theory, the National Board finally authorized all the regional boards to use the average rate in cases where they had no other figure available, and assume that a figure 10% below the average would constitute the minimum of the sound and tested rates. It obviously couldn't be the average because probably more than half the rates for any type of work would be below the average; because the skew was usually a little wider on the top side than it was on the bottom side. The principle under which the whole thing operated was to set the minimum of the bracket at such a figure that only a small percentage of the employees in any particular type of work would be entitled to an increase.

We have been operating under that directive ever since May 12, 1943, and I don't mind telling you I don't think that anybody who was in the War Labor Board on May 12 had any idea it would stay fixed as long as it has. I think it has been a real accomplishment that we have been able to stabilize wages as well as we have under the terms of that directive and under the approvable rates which have been set up by most of the regional boards for the major types of work under their jurisdictions.

I think that gives a brief summary of our policies and the methods by which we are trying to secure stabilization. If some of you want a concise statement of the philosophy of the Board's program and the policies it is following, I suggest that you write to the National Board in Washington and ask for a copy of Release B-1411. It is a statement that was issued by William H. Davis, the Chairman of the Board, on April 2, 1944. You can get it by writing to the National War Labor Board in Washington, D. C.

Chairman: Now, in order to get a little more background for some of the questions which follow, I call on Mr. McDonald to tell us about the penalties for violating the stabilization law and, how an employer goes about attempting to cure a violation of the stabilization law.

Mr. William McDonald (Of The Research Institute of America): As Mr. Martindale pointed out, a wage or salary that is paid either above or below the stabilized rate is an illegal wage or salary payment. In either case, whether the violation occurs because of an illegal increase or an illegal decrease, the entire amount of the wage or salary paid at the

illegal rate is not allowable as a deductible amount for tax deduction purposes; the entire amount of the illegal wage or salary is not allowable for purposes of computing costs under Government contracts (or, if strictly interpreted, under Government subcontracts); and, third, the entire amount cannot be considered for computing manufacturing costs for price control purposes. In addition, if the illegal payment is considered to have been made wilfully (and I have never been able to figure out how the Board or the Treasury figures that it is or is not wilful), both the employer and the employee are subject to criminal penalties. Criminal penalties are a $1,000 fine and a year in jail. So far, to the best of my knowledge, no employer nor employee has been accused of a wilful violation; the Board and the Treasury have been very lenient.

If I may, I will swing into the other question: how to go about curing a violation.

There are two methods that can be resorted to; one, probably the safest for personnel reasons, is to file a Form 10 or an SSU-1, trying to get approval for what you have done. Very frequently increases which are made are illegal solely because the employer hadn't asked whether he could make an adjustment. Very frequently both the Board and the Treasury would have been able to approve the granting of the increase. If these conditions are present, and the adjustment was made without intent to break the law, the Board and some local stabilization units (but not all) have been inclined to be lenient and to grant approval retroactively. The Treasury is less lenient than the War Labor Board on the whole in granting retroactive approval. However, even though the Treasury does not give approval retroactively for the increase which you made, the employer is in a position to get approval from that date on which he filed application or at least to get a notice from the Treasury that the increase is illegal. He can give the Treasury's notice to the employee showing that no longer is the company permitted to pay the salary which he is now receiving. The employer is on a little firmer ground in dealing with employees if he is able to show them that some government agency is forcing him to cut their pay against his will.

If retroactive approval is granted, then the entire violation is wiped out. If approval is granted from the date on which application was made, then the violation is held against the employer only for the period during which the illegal rate was paid; that is, that the entire wage or salary for the year is not illegal if the individual employee was being paid for, let's say, a period of three months at an illegal rate. The entire wage or salary is thrown out only for the time during which the employee was paid at an illegal rate.

The other way of curing a violation is for the employer himself to cut back the wage or salary to a legal rate. That doesn't cure, in the sense that it doesn't wipe out the violation during the period at which the illegal rate was paid; but it minimizes the total amount that will be held to be in violation. I do not think this is the most advisable way of doing it, unless it is a clear-cut case of violation—one in which you might be accused of making a wilful violation. The reason for that simply is that the employee is going to find some way to obtain a Statement of Availability, if you act in what he considers to be an inordinate manner.

Mr. Martindale: I think the circumstances under which wilfulness would be quite obvious would be the case where an employer files for permission to grant an increase and it is turned down, then he goes

ahead to grant an increase. I believe that is the condition in this Denver case that was mentioned, and one condition where the Board would certainly make an accusation of wilful violation. There are cases where an employer has made application for approval of a particular increase; then, when it is obviously aware of the Board's regulations and procedures has gone ahead and granted a general increase. This couldn't just be a case of misunderstanding. But the cases where the Board has taken action already or is planning to take action are those few cases where the employers have received denials and have gone ahead and given the increases anyway.

On retroactive approval, I thought I'd give you a little idea how we operate so that if you advise a client to file for retroactive approval in order to get his skirts clean and he gets the kind of a letter he will inevitably get, you will be prepared for it and won't let him chew your head off. When an application is filed with us for retroactive approval the Wage Stabilization Division or the Board itself never grants the retroactive approval in its initial ruling. If we find that a given increase is approvable under our standards, we will send a ruling to the applicant approving the increase prospectively and telling him that the question of retroactive approval has been referred to the enforcement section of the Board for its consideration.

Now if you don't know that that is the form that we follow in all cases, both you and the employer might immediately conjure up pictures of immediately going to jail or having most of your payroll eliminated as a deductible expense. While I don't want to put you completely at ease and let you think we don't inflict any penalties at all, that type of a letter doesn't carry all the serious implications I suggested; it means that the enforcement section will look into the matter, and if they find any basis under which they can say that this was done in good faith, they will issue a good-faith finding and grant retroactive approval and the whole matter will be cleared up. If they can't do that, they will take up the question with you as to how large a proportion of the illegal increase is disallowed for income tax purposes and the other purposes mentioned by Mr. McDonald.

Question: When it reaches the enforcement bureau, if the increases have never gone over the allowable rate range within a certain designated area, would it naturally pass by without a penalty or still be subject to penalty? I mean, how lenient are they?

Mr. Martindale: We wouldn't automatically grant retroactive approval even if it were approvable for the future under our approvable rates; but if the employer can make any kind of a case at all of having given the increase through ignorance or carelessness, the Board will make a good-faith finding; and I think it is fair to say that, if the Board has erred at all in its enforcement policy, it has been because it was too lenient rather than too strict.

Question: "What restrictions are imposed upon an employer in the determination of the maximum and minimum rates which he can pay to a new employee for, an existing position previously filled by another person, and, for a newly-created position?"

Mr. McDonald: In the case of hiring someone new for a job that was already existent in the organization, the established salary rate or rates for that job determine what may be paid to the new employee. If the established salary is a single

rate, that single rate sets the maximum at which the newly-hired employee can be paid.

A problem arises only if the job is paid for at a series of rates, that is, if it is a rate-range job. Theoretically, the maximum permissible to the new employee for a previously-existent job is the maximum of the rate range; actually, the employer is to determine from a study of the various steps within the rate range the rate which is commensurate with the amount of skill and ability which the new employee brings to the job. If it is a known fact that the employee brings a wealth of experience and is the best possible man who could be hired for that job, there would be no violation if he were paid at the maximum rate for the job. If the newly hired employee had little or no experience, he would have to be paid at or close to the minimum. The safest answer to give to the question is one stated in terms of a formula—a new employee engaged to fill a job for which valid rate ranges exist should be paid the rate commensurate with the skill and ability which he brings to the job, provided that rate does not exceed the maximum of the rate range.

Turning to the next part of the question, concerning the fixing of a rate for a job which had not previously existed and which cannot be fitted into any of the categories of jobs existing in the firm—the Treasury has two different statements. Section 1002.14 of TD-5295 says that if an organization comes into being after the stabilization date, no approval is required for setting for its jobs rates commensurate with rates being paid by similar firms in the area. That seems to me to mean that the average rates paid for a job by like firms could be given without approval to an employee in a job in a new organization or in a new department of an old organization. The preceding section of the same TD-5295—Section 13—says that employees in a new job classification cannot be paid in excess of the minimum paid for similar jobs in the organization, or, if no such jobs exist, they cannot be paid in excess of the minimum of rates paid by other firms in the area for like work. In other words, they have two different statements: (1) in dealing with new firms, a rather clear implication that the average rate can be paid without approval; (2) in dealing with established firms, that salaries for new jobs cannot be set above the prevailing minimum.

Whether or not it was in recognition of that seeming contradiction in their own regulations—strictly speaking, not a contradiction, but surely the creation of a hardship—the Tresaury issued Form SSU-2 to be used specifically for determining what rate can be paid employees in a new job classification. Indications are that the Treasury is approving rates up to the average rate: in other words, they are using Section 1002.14 as the standard which they apply if the employer makes application to them; and they are forcing him to use the minimum of prevailing rates if he does not come to them with an application. Since the employer in setting rates for new jobs without approval by the minimum of prevailing rates, he is not permitted to set up rate ranges. He can set only a single rate for the job. Application on SSU-2 is the safest and wisest procedure to follow by both old and new organizations asking for a salary rate or range of rates that is in balance with the other rates being paid by the organization or, if it is an entirely new organization, rates that average up pretty well with like firms in the area.

Question: "If a corporation was dissolved after October 3, 1942 and

was succeeded by a partnership, can the partnership continue to pay the same salaries and bonuses as the predecessor corporation?"

Mr. McDonald: The Treasury does not consider a change in the organization as the beginning of a new business, even though the financial structure of the organization undergoes radical changes. If the organization continued to hire the same personnel, if it continued to engage in the same business, if its job categories remained the same or approximately the same, it would not consider that a new business had been created. Thus, the old wage and salary structure could be carried on.

In the change from a corporation to a partnership, there should be no questions of stabilization arising providing the old pay schedules or pay scale is carried over. In the reverse change—that from a partnership to a corporation—the former partners would, in order to get a justifiable salary, have to file Form SSU-2 with the Treasury offices.

Chairman: Would you, Mr. Martindale, care to tell us about the War Labor Board policies relating to the three questions answered by Mr. McDonald?

Mr. Martindale: As far as hiring a new employee for a job that has already been filled is concerned, the War Labor Board principles would be the same as those described by Mr. McDonald for the Treasury Department except for the new provision in the form of an amendment to General Order 31, which I hope all of you have heard about by this time: we refer to its as "The 25% Rule". It is a new section to General Order 31—Section 2F—which provides that in hiring an employee for a position where a range is in effect, the employer may—as Mr. McDonald indicated—pay the new employee any rate within the range that is commensurate with his experience and ability, provided that during any calendar year no more than 25% of the new employees in any job classification may be employed at a rate above the minimum; with a further proviso that if less than four are employed in any classification, one of such employees may be hired above the minimum.

The reason why the Board adopted this amendment to General Order 31 was that it found that, in a large number of cases, employers were getting approval of ranges for jobs and then hiring everybody—or practically everybody—at the maximum of the range, so that actually they had a single rate for the job that was comparable to the maximum of our approvable range rather than comparable to our approvable single rate.

In regard to establishing a rate for a new job, Mr. McDonald indicated that you can only establish a single rate for the job without Treasury approval: If you want to establish a range you have to obtain approval. That isn't the case with the War Labor Board; you may establish either a single rate or a range for a new job. If your present wage structure is one in which ranges are the predominant factor, you may establish a range for the job; if you formerly paid single rates, you may establish single rates for the job without our approval, providing the rates so established bear the same relationship toward the prevailing rates in the area as your present rates for existing jobs bear toward the prevailing rates in the area. If your established rates for existing jobs are about the level of our approvable rates, then you could safely adopt the approvable rates for the new job. If your established rates for existing jobs are somewhat above the level of our approvable rates, you could safely set the rate

for the new job the same amount above our approvable rates.

The approvable rates are not rates to which every employer is limited for every job; they are the level up to which we may grant increases; and if an employer has regularly established a wage srtucture which is at the level of the middle of the bracket of sound and tested rates rather than the minimum of the bracket, it would be obviously creating an inequity in his own plant if we said, "You pay the middle of the bracket for your existing jobs, but when you establish a new job you have to come down to the minimum of the bracket".

When a new establishment is set up, the employer must file an application for approval of his wage structure with the War Labor Board, and also if an entirely new department is set up. The provision that a rate may be established without our approval applies only to single jobs or scattered jobs, but if a new department is established or a new company is established the entire wage structure must be submitted to us for approval, and in such applications we will approve a wage structure equivalent to the mid-point of the bracket rather than the minimum.

Chairman: You didn't say anything about a partnership which succeeds a corporation. What would be your answer there?

Mr. Martindale: I think the answer there would be the same as Mr. McDonald's. If there is an actual sale you should file an application for approval; but I am sure we would continue the old wage structure if the type of operation remain the same.

Question: "A chain store organization is composed of a parent corporation and twenty subsidiary corporations. Each subsidiary corporation operates one store and has less than eight employees. Does the rule of 'Eight-or-Less' apply in a case of this sort?"

Mr. Martindale: The total number of employees in the corporation governs rather than the total number of employees in an establishment. I hadn't realized, in reading them over, that you had these branches as subsidiary corporations. I suppose then the question would revolve 'round the extent to which the subsidiary corporations are technically employers. If each one of them is technically regarded as a separate individual, then the employers of subsidiary corporations would govern.

Most chain stores of course are not subsidiary organizations, and there the total number of employees of the corporation would determine whether or not the employer was exempt under General Order 4.

Chairman: May I add that my understanding is that if an entity is set up in good faith and without intent to get around the wage stabilization law, the entity stands on its own feet as to the number of its employees without regard to its affiliation.

Is that your understanding?

Mr. Martindale: That sounds reasonable to me.

Question: "In counting employees for the purpose of the "Eight-or-Less Rule", do you include persons in the armed forces who are continuing to receive salaries?"

Mr. Martindale: I should think not.

Question: "A corporation has been in existence since 1938. Because of unsatisfactory operating results and limited working capital, the officers waived salaries for all years except 1944. In 1944 it is the intent of the corporation to pay the officers reasonable salaries for their services. Is approval necessary?"

Mr. McDonald: The stumbling block in that case as I read it is: "the officers waived salaries for all years except 1944". The answer to the question, I think, depends upon how that waiving was done.

If, at the meeting of the board of directors in each year it was decided what the salaries were and that was recorded in the minutes and then after the passing of that resolution the officers waived a specific amount of salary, my answer would be that the salary could be paid for 1944 to the extent that salary was permissible on October 3, 1942, even though waived at that time. If the officers had never agreed as to the amount of salary which they were waiving, then I think that the safest course of action would be for them to file an SSU-2 if they wanted to get, as the question states, "reasonable salaries for their services" in 1944. I believe that they would be safe in accepting salaries not in excess of the minimum paid by like concerns even though the company had not obtained or sought approval. I don't think the Treasury could consider that unreasonable.

Briefly my answer to the question depends upon how the waving was done. If an actual amount has been waived, then that actual amount can now be paid. If salaries just in general are waived, then they can be paid the minimum and no more with approval. Approval of an amount above the minimum is almost a certainty.

Mr. Hecht: May I say, Mr. Chairman, about that particular question, in a case which we handled where there was a waiving of salaries, we got a ruling from the Treasury Department. They ruled that the waiving of salaries (we were to set up a minimum of what the salaries were that were waived) did not require approval, and subsequently they could be paid. The minutes provided that the salary could be paid for that particular year only.

Mr. McDonald: It would seem that the reasoning behind that ruling was that the Treasury could find salaries paid in a definite amount not only for the calendar year but that it also considered that amount as the salary authorized or accruing to the employee account year by year.

Question: "A plant superintendent receiving the same salary as he received in 1942, in excess of $5,000, has an agreement calling for 10% of the profits in addition thereto. Is there a limitation on the amount that can be paid in 1943 and succeeding years? The contract was entered into prior to salary stabilization."

Mr. McDonald: I am presuming that the salary "received in 1942" means the salary rate in existence on October 3, 1942. If, under those circumstances, this plant superintendent has not received any salary increase, provided the same percentage rate is now used and the same method of determining profits is now used, there is no limitation to what he can draw through the percentage of profits arrangement which he has. However, if he had received any increase in salary since October 3, 1942, he could not receive any amount on a percentage-of-profits basis without approval, even though the same rate and method of computation were used.

However, the Treasury is very lenient in going along with percentage-of-profits and percentage-of-sales agreements entered into before 1942 where the salary rate has not been tremendously increased since the stabilization program. Amendment of Treasury regulations on September 26, 1944 change this answer. Any contractual obligation of a percentage nature entered into before the beginning of the stabilization program

justifies payment in full according to the arrangement even though the employer's basic salary has changed since stabilization began.

Question: "A corporation employed a bookkeeper at $50 per week, having paid its previous bookkeeper only $40 a week. The new bookkeeper received $50 per week in his previous position. Does the starting rate of the new bookkeeper require approval?"

Mr. Martindale: It does require approval and we probably wouldn't approve it.

The rate that an employee received under a previous employer has no bearing on what we approve for the new employer. The new employer would still be limited either by his established rate or by our approval rate.

In the case of $50 for a bookkeeper, that is above the approvable rate in New York City and 'way above the approvable rate in most areas, so it wouldn't be approved.

Question: "A concern paid its bookkeeper $50 per week. The bookkeeper left its employ. A new bookkeeper was employed at $40 per week. Can the salary of the new bookkeeper be increased to $50 per week without approval?"

Mr. Martindale: That is not as simple a question as it sounds. Prior to April 11, 1944, it would have been just a little bit more complicated than it sounds, and now it is a lot more complicated.

If the $50 rate is a single rate, if the company has always paid that bookkeeper $50, if they hired the bookkeeper at $50 and continued to pay him or her $50 during the entire length of employment, then they have no right to employ a new bookkeeper at less than $50 because that is a wage cut, and they not only could but should raise the new one to $50 immediately. They probably should pay him retroactive pay to the day he was employed, so that they have paid the established rate.

I don't think many employers have a fixed single rate for a position like bookkeeper. The individual abilities of bookkeepers vary so much and the value of a bookkeeper increases so much with his length of service that I think it is almost an invariable practice to have a range for a position like that. Prior to April 11, 1944, I should have said that the company could take the rate at which its latest bookkeeper was hired as the minimum of a range for the position of bookkeeper and the maximum rate that he was ever paid as the maximum of the range, and that they might hire the new bookkeeper at the minimum of the range or at some figure above that under this 25% rule and then grant increases within the range under General Order 31. That would mean that they wouldn't be able to get him up from $40 to $50 very rapidly. On April 11, 1944, however, the National Board issued some revised instructions to its regional boards and to the Wage-and-Hour offices that cooperate with the Board, in which they distinguished very sharply between properly established ranges and companies which had a range of random or personalized rates. If the instructions are interpreted quite literally—and apparently the National Board wants them to be interpreted quite literally—you have a properly established range only if you have a written document of some kind: a union agreement or a wage schedule approved by the board of directors showing a fixed minimum and maximum for each classification. If you just happen to have employed a bookkeeper at $40 and to have given him increases up to $50 or $55 over a period of several years, that doesn't mean that you have a range for a bookkeeper;

it means that you have thought your particular bookkeeper was qualified for increases and gave them; and those are personalized rates. So that now the only way you can get a range approved is to file an application.

This new interpretation as to what constitutes a properly established range I don't think is being applied retroactively, so that a lot of employers who in perfectly good faith took their minimum rate as of October 2 for a job and their maximum rate as of October 2, and said, "Now this is my range and I'm going to give increases within that range", I think are completely in the clear. But any range that hasn't been actually established as a formal range and not just the rate that you happen to be paying as of a certain date should now be submitted for our approval. So that in this case I would suggest that the employer file an application with the War Labor Board stating the facts as to the rates that he paid to his previous bookkeeper. If he has other individuals in the same position, then of course he should state the facts as to their rates of pay also and get an approval of the established range.

Since it is a little bit difficult to hire a bookkeeper until you know what you're going to be able to pay him, I think that this would indicate that it is desirable for every employer to get a formal wage structure approved. That can normally be done by submitting a wage schedule to the Wage-and-Hour Division rather than submitting it to the War Labor Board, and any employer who doesn't have any definite set of ranges for all of his jobs and wants to be able to grant individual increases and wants to be able to employ new employees at various rates commensurate with their ability I think should either get a wage schedule approved through Form 10 or get a ruling from the Wage-and-Hour Division that he has a wage structure that does not require approval.

What is a Public Accountant?

PART II: FROM 1896

By Norman E. Webster, C.P.A.

Editor's Note: The Securities and Exchange Commission in its Report on Investigation in the Matter of McKesson & Robbins Inc. included a note on page 135 referring to *A History of Accounting and Accountants* by Richard Brown published in Edinburgh in 1905. That book gave only 10 pages, 271-280, to The United States of America. For that reason the author of this article thought that a volume as nearly comparable to the Brown book as he could make it should tell the story of public accountancy in this country. He disclaims any effort at authorship and says he is only a researcher and compiler. This article was prepared as one chapter of his proposed book. Part I, telling how public accountants have described themselves and their work prior to 1896, appeared in the November, 1944 issue of The New York Certified Public Accountant.

"3. The Regents may in their discretion, waive the examination of any person possessing the qualifications mentioned in Section 1, who shall have been, for more than one year before the passage of this act, practicing in this State on his own account, as a public accountant, and who shall apply in writing for such certificate within one year after the passage of this act." Laws of New York 1896, Ch. 312—approved April 17, 1896.

THE administration of this first Certified Public Accountant law was placed with the Regents of the University of the State of New York, which it may be well to note in passing is not an educational institution but is a supervisory body for the determination of educational policies, with an administrative organization for making its policies effective.

That the Regents knew the meaning of the term public accountant is indicated by the fact that on June 8, 1892 when they refused to grant a charter for a proposed but unorganized college of accounts with degree-granting power, they had said that they were "ready to open examinations for such persons as desire to become public accountants". And it is almost certain that they had known of the two accountancy bills in the 1895 Legislature which if unacted would have recognized public accountants.

But so far as learned the New York C.P.A. Act of 1896 was the first statute that included the term public accountant. And in the first section of that law there were the related expressions, public expert accountant and Certified Public Accountant and the abbreviation C.P.A. With the term embodied in the statute there was even more need for a definition of it.

To make effective the provisions of the new law the Regents created the Board of Examiners for Certified Public Accountants authorized by section 2 of the Act. Of the first three appointees to the board two were listed in the 1896 issue of the New York Business Directory as public acountants. The minutes of the Board show that it held its first meeting for organization on October 28, 1896.

Two weeks later on November 12, 1896, the Board adopted rules for its work. Rule 4 provided for the waiver of the examination requirement upon the "unanimous recommendation of the examiners" where the applicant was "well-known to examiners as meeting professional requirements" and had

been in "practice as a public accountant since January 1, 1890". And at its fifth meeting on December 1, 1896 the Board disapproved application #40 for certification without examination, "he not being in practice as a public accountant upon his own account in this State".

During the first five years to June 30, 1901, the Board rejected 29 such applications, suspended action upon 19 applications for more evidence of practice, and approved 132 applications for waiver of the examination. And so far as is shown by its minutes, it took such action without considering it necessary to define the term pubic accountant, athough on December 22, 1896, it indicated that work similar to that practiced by a public accountant, if performed for a single corporation employer, was not that of a public accountant.

However, it seems that the question continued to be a matter of interest because during the period from August 1897 to February 1899 the magazine ACCOUNTICS published four items bearing upon the subject as follows:

> "The skilled accountant, the clever physician and surgeon, and the learned lawyer must all keep pace with the times and be up to date with all the latest knowledge and methods to enable them to perform their duties satisfactorily and to compete successfully in the battle of life. They each have a still higher duty to perform and that is to protect the public."
>
> August 1897, Vol. I, page 118, Extract from address by G. T. Lane, president of Adelaide Society of Accountants.
>
> "I believe the day will come when every city, county, town and school district in this State, and in fact throughout the whole United States, will be compelled by law to have its books examined annually by competent public accountants, and to have its statements bearing the verification of such an expert published as a matter of public record."
>
> May 1898, Vol. III, page 35, Extract from address by James G. Cannon to National Association of Credit Men.
>
> "Accounting is much more than mere bookkeeping. * * * There is far more in auditing than detecting minor errors of the bookkeeper, or ferreting out the methods of defaulters or embezzlers, and yet it is the latter which is most generally brought to public notice."
>
> September 1898, Vol. III, page 113, Extract from editorial, perhaps by Anson O. Kittredge.
>
> "The position of an auditor with regard to a company should be absolutely independent, and to a large extent, of course, this is impossible while there is nothing to prevent the auditor being either directly or indirectly interested in the promotion."
>
> February 1899, Vol. IV, page 42. Extract from Limitations of Auditing reprinted from The ACCOUNTANT of London.

By March 29, 1899, another need for a definition of a public accountant had arisen for on that date the Pennsylvania C.P.A. Law was approved. Under it there were two reasons for a knowledge of the meaning of the term: first, because Section 2 required that three of the board of five examiners "shall be public accountants, who shall have been in practice as such for at least five years"; and second, because as in the New York Law, there was a provision for the waiver of the examination in the case of those persons who had been practicing in the State as public accountants for a stated period, which in Pennsylvania was fixed at three years.

The other two members of the Pennsylvania Board of Examiners were required to be lawyers. Nothing has been found to indicate the basis upon which the Governor acted in his selection of the public accountant members of the board but it seems that he as well as the Legislature may have learned who were public accountants though their activity in pressing for the enactment of the law in that State.

And whether or not that Board of Examiners formulated a definition of a public accountant, or of the public practice of accountancy, it appears that the earliest effort to secure such definitions was made in Pennsylvania and only a short time after the organization of the Board of Examiners in that State.

THE PUBLIC ACCOUNTANT of Philadelphia in its issue of January 15, 1900, Vol. II, page 43, under the caption "The Public Accountant" carried the following editorial.

> "Outside of a limited circle of financial men the utility of the public accountant was little known and appreciated in this country up to a few years ago. But the rapid growth of so-called trusts has helped carry the doctrine all over the United States, and today the public accountant is to be found in practice in all the large cities of the country.
>
> "And yet the question is constantly being asked, 'What is a Public Accountant?' The average financial man in the principal Eastern cities knows full well the use of the professional accountant, and knows how important a part he plays in the drama of commercial life, though he is often very reluctant to call in the accountant's services. But the banker, manufacturer and merchant of the Middle and Western States has until recently had little opportunity of learning the very useful sphere that the public accountant fills, and they have yet to learn that it is far better to call in the public accountant as a physician than as a coroner.
>
> "To elicit an exchange of views as to what a public accountant really is, the editor of this paper has invited several of the leading professional accountants to contribute each a definition. There has been a very generous response to the editor's invitation, and the first six of these definitions are given in this number. The others will follow in detachments of six definitions in each number."

Having thus stated his purpose in asking for the definitions, the editor on page 40 of that issue introduced the answers as follows:

> "WHAT IS A PUBLIC ACCOUNTANT?
>
> The above question is frequently asked and it is safe to say is never answered twice in the same language. The editor has asked many of the leading public accountants, practicing in this country to write a definition of a public account. Herewith are presented six definitions; the others will be published in subsequent issues."

Five months later in the issue of June 1900, Vol. II, page 185, the ending of that effort at lexicography was announced in the following paragraph:

> "A PUBLIC ACCOUNTANT
>
> With this issue we complete the publication of the definitions of 'A Public Accountant'. A glance will show the various meanings which can be given to one term and we can safely say that were we to publish hundreds of the definitions, no two would be found alike, either in form or subject matter. Each Accountant has his own idea of his profes-

sion and strange as it may seem, every one is right."

During January to June 1900, THE PUBLIC ACCOUNTANT printed answers from 29 accountants in 8 cities. In each issue the answers came from different parts of the country. Here the answers from each city are brought together.

From Philadelphia, seven replies were received.

"A thoroughly capable Accountant who is at the service of the Public for the solving of any and all bookkeeping problems that arise in mercantile or professional business. His one asset 'Ability'; his trade mark 'Integrity'."

William H. Cullen

"A public accountant is one engaged professionally in the practice of accountancy; the term accountancy being understood to cover all forms of investigations of accounts for the determination of financial conditions, detection of frauds or prevention thereof, or for whatever purpose data obtained from the accounts may be required."

William M. Lybrand

"A Public Accountant is a man fearless and unprejudiced, with the ability to look at both sides of a question; one who will not allow his honest opinions to be changed by client or adverse party; who dictates and is never dictated to; who places his devotion to his profession above the opportunities for gain by questionable means."

Robert H. Montgomery

"One who by reason of intellectual fitness and experience is competent to design and direct systems of acccounting; critically examine books of account respecting their accuracy, honesty and adequacy; prepare therefrom clear and adequate exhibits of financial condition and operations; and, generally to advise in all matters pertaining to accounts."

Adam A. Ross, Jr.

"A public accountant is one who, being skilled in accounts, examines, supervises, adjusts, states and keeps accounts, and designs and inaugurates systems of accounting. His services are not limited to or controlled by one employer, but may be secured by all who require them."

T. Edward Ross

"A disinterested adviser of the business man. One who can warn him of dangers and protect his interests."

Charles N. Vollum

"A public accountant is one who not only masters the intricacies of the accounts of one business, but he is master of all business and professional accounts, and who is fearless in his knowledge, placing all truths plainly without regard to client or patronage."

Robert B. Vollum

From Pittsburgh there were three answers.

"A person possessing capabilities to successfully ferret out and clearly exhibit the facts involved in some financial tangle; business experience to fit him to advise in, or manage important matters; inventive genius to contrive a neat fitting set of books; detective acumen to scent out unsuspected errors or facts; legal bent to discover and bring out points in a case, and tact to get at valuable information without friction and know, from long experience where to direct his attention."

William W. Edgar

"A public accountant is one who professionally practices the career of an accountant to the general community. He is one who holds himself ready to accept special engagements from the people, in which his advice, discretion, experience, knowledge in the science and skill in the art of accountancy may be deemed desirable and necessary."

Equity ("described as one of the most prominent accountants of the State")

"One qualified by training and experience in the science and practice of accounting; who originates systems of accounts adapted to special lines of business; who examines, critically, the accounts of corporations and others to verify their correctness, or to detect errors or fraud; and who advises on matters of accountancy."

Francis J. Rebbeck

From Chicago there came eleven answers.

"One publicly recognized as having competent knowledge of commercial laws and usages; ability in quickly mastering operating details; ready discernment of improper entries; accurate appreciation of values and mechanical contrivances; reputed integrity toward

private confidences. Endowed with a keen sense of equity and unbiased judgment. A thorough student of economics."

H. F. Butler

"Assuming the fundamental tastes and training, he must have a logical, orderly, inquisitive, probing mind; a decisive manner and a resolute will, coupled with a tactful and gracious disposition; a ready approach with discretion and a resourcefulness to meet obstacles; a proper reserve and absolute integrity as to the business intrusted to him. As the eye is the index to the soul, so the public accountant should be the index and guide through the perplexities of commercial life."

John Alex. Cooper

"My understanding of a Public Accountant is a member of the profession who devotes his entire time to accountancy, who maintains a permanent office in a public place, and whose line of practice is such as to cause him to be recognized as a specialist in all matters pertaining to accounts."

Lawrence A. Jones

"A man's books are the written history of his business. In them are recorded the experience of years. It is important that these records be correct. A public accountant is a specialist in accounts and in the varied and complex interests of our present business life he is a necessity."

Robert Nelson

"A public accountant acknowledges no master but the public, and thus differs from the bookkeeper, whose acts and statements are dictated by his employers. A public accountant's certificate, though addressed to president or directors, is virtually made to the public, who are actually or prospectively stockholders. He should have ability, varied experience and undoubted integrity."

Charles C. Reckitt

"A person whose training enables him to understand and examine into all classes of accounts and books subsidiary thereto, with the object of presenting to his client, without fear or favor, report and statements accurately setting forth the past workings for a given period, present financial condition and future prospects."

Ernest Reckitt

"The Public Accountant should be thoroughly schooled in the practical, as well as the technical application of Science of Accounts, well read in the Laws and Ethics of Finance & Commerce, keen visioned (mentally and physically), capable of hard work, rigidly conscientious, patient, sagacious and be versed in professional etiquette."

George J. Rehm

"One having a natural aptitude for the manifold requirements of the business. Having this, a good education, extensive practical experience, courteous deportment and sterling integrity, he may rightfully claim to be in the full sense of the words, a public accountant."

Allan R. Smart

"A Public Accountant should be a thorough figure-man and organizer, having an analytical mind, a knowledge of all laws affecting commerce and of the best business methods, able to apply them to any business. In other words should be a thorough business expert, able to practically apply his knowledge."

Walton, Joplin & Co.

"A professional accountant, whose services are available to the public for a fee or per diem remuneration, as may be arranged. To be successful he must be honest, diplomatic, fearless, versatile, indefatigable, experienced, perspicuous and skilled in his craft."

George Wilkinson

"A public accountant is one, who, from a thorough knowledge of the science of accountancy, combined with long experience, is competent to analyze or dissect a set of accounts and verify the correctness or expose the errors or fraud in same. He must, necessarily, be honest, fearless and incorruptible."

H. J. D. Wodrich

From San Francisco two answers came.

"One who is expert in accounts and so entirely familiar with the science of bookkeeping that he can readily apply the principles of that science to the requirements of any business by the most practical and direct methods. One who is fitted by education and experience to examine accounts."

Francis E. Beck

"A Public Accountant is a person appointed for the purpose of examining into and passing judgment upon books, accounts and general business transactions. This he must do conscientiously

and impartially, accompanying his assertions with proper proofs, and gaining by the execution of his duties the respect of friend and foe."

Charles F. Lutgen

From Boston there came one reply.

"An expert specially in matters of account. Keeping an office open at call of public men, being paid for time occupied, not being a salaried bookkeeper, having some recognized professional status, in continuous practice for many years on his own account or in the office of another expert."

Wm. Norton Reid

From Newark also one reply came.

"The Public Accountant is born not made,—should have a natural aptitude for accounts, a fair knowledge of the principles and practice of law, should possess a judicial mind, never swaying from exact truth. His statements should be simple, condensed, and if possible comprehensible to all, perfectly honest."

Richard F. Stevens

From Buffalo again one answer was received.

"A Public Accountant is a person who renders to others a degree of temporary service so valuable that they could not afford to engage his entire time. His report should be so comprehensive that it will be a retrospective view, a present exposition, and a basis for all future operations."

William G. Mowatt

And from New York City there were three replies.

"A public accountant should be a friend to the erring; a schoolmaster to the ignorant, a spur to the indolent, a warning to the trickster, an eye-opener to the wideawake, a guide to Heaven."

Franklin Allen

"The public accountant is the consulting physician of finance and commerce. He understands the anatomy and physiology of business and the rules of health of corporations, partnerships, and individual enterprises. He diagnoses abnormal conditions, and suggests approved remedies. His study and interest is the soundness of the world of affairs."

Charles W. Haskins

"The ideal public accountant is he who, without trenching on existing authority, systematically examines the accounts and methods of business of the institution in which his patron is interested; renders an intelligible certified report of its financial condition; and, if necessary, suggests a safer or more economical method of accounting."

Elijah W. Sells

In closing the publication of the foregoing definitions the editor, as already noted, had said: "Each Accountant has his own idea of his profession, and strange as it may seem, every one is right". It would be unsafe to weld these answers into a single definition. Two are wholly metaphorical, a few are wholly literal while most are expressed in terms between those extremes. Even so it is possible to summarize them in a general way.

Only 7 of the answers mentioned the professional status of the public accountant in that he offers his service to the general public, and only a few particularized as to the nature of the services he offers to render except that about one-half state that he is prepared to be an advisor to his clients. But there was a greater unanimity as to what the public accountant should be and how he should act. Generally the replies stressed two things, the qualifications which the public accountant should possess, and the principles which should govern his activities. As to the qualifications, 9 mentioned the desirability that he have educational preparation, 10 that he should be experienced, 13 that he should be thoroughly capable, 7 that he should have tact and courtesy, and 4 that he should possess imagination. And as to governing principles, 10 stressed honesty, 6 that he must be unprejudiced, and 4 that he be fearless.

Three months later in September 1900, the College Department of the University of the State of New York

issued the CERTIFIED PUBLIC ACCOUNTANT SYLLABUS (Bulletin 15) prepared by Charles W. Haskins, President New York State Board of C.P.A. Examiners, the preface to which included the following:

"The position of the bookkeeper in charge of the accounts of a large and intricate business is one of much importance and responsibility * * *. The public accountant, however, has a responsibility of a higher order and should be possessed of unlimited skill and resource. He is, as it were, a court of last resort in matters of accounting. It is on him that his client relies for correct information as to the character of the bookkeeper's work, and it is also to him that the bookkeeper and his staff look for a confirmation of their work. The public accountant is expected to discover and correct technical errors, to point out errors of principle and to unearth fraud if it exist; * * *. In this view the exact and conscientious public accountant becomes a moral force in the business world by making dishonest practices more difficult and more certain of detection.

"In much of this work that the public accountant performs he serves the public no less than his immediate employer. In the audit of an insurance company, a bank, a building association and other quasi-public institutions the work is of this character; and in the case of strictly private corporations, while he is employed by the directors, his work is really for the information of stockholders and creditors. Without assuming here to discuss the duties or the legal responsibilities of an accountant, it seems not too much to say that, while he cannot be regarded as in any sense an insurer, he will be bound morally at least by his unqualified statements; and that this certificate, without regard to who is his employer, should be free from ambiguity and state only that which he knows to be true."

Following the enactment of the C.P.A. Law in New York in 1896 and in Pennsylvania in 1899, accountancy laws were enacted in Maryland in 1900, in California in 1901, and in Washington in 1903. Each of these laws were similar to the Pennsylvania law in that it provided for a board of accountancy composed in whole or in part of public accountants and for the waiver of the required examination for public accountants who had stated years of experience in practice. In these States as in the earlier two it was necessary for the appointing power and for the members of the respective boards to know the answer to the question, "What is a public accountant?", but nothing has been found to show that any one of them formulated a definition of the term.

But about two months before the Washington C.P.A. Law was approved on March 12, 1903. THE BUSINESS WORLD for January 1903, Vol. XXIII, page 32, carried a column on the subject, of which the following is a condensation.

"One of our subscribers, a member of the profession, has contributed the following definition of a public accountant, and would like to have the opinions of his fellow accountants as to the correctness and completeness of the same.

'Public Accountant': One who is skilled in accounts and makes the study and investigation of accounts his profession, offering his services to the general public to enable them to so keep their books and make up and understand their accounts and financial position that the whole community is benefited by the better

system of bookkeeping and accounting which results. The duties of the public accountant are further:

(Note: the seven subdivisions are here condensed and summarized)

(a) To straighten out and adjust involved accounts and make them intelligible.
(b) To compile simple and effective bookkeeping system for all businesses.
(c) To prepare systems of stock and cost books for costing goods in mills.
(d) To prepare trading statements, profit and loss, and balance sheets with schedules
(e) To institute complete systems of internal check to minimize or do away with fraud.
(f) To prepare deficiency statements showing how shrinkage has arisen.
(g) To do accounting required by any court, office, corporation, firm or individual."

The definition continues in 3 paragraphs to describe the functions of an auditor which are considered to be subsequent and supplemental to those of the public accountant.

Then on May 15, 1903 the C.P.A. Law of Illinois was approved. Like all five predecessors, it made provision for a board of examiners composed of skilled accountants in practice, and for the waiver of the examination of public accountants who had been engaged in public practice for a stated period. But unlike the other States which placed the administration of their C.P.A. Laws directly in their boards of accountancy or of examiners, New York in 1896 and Illinois in 1903 placed it in supervisory bodies, respectively the Regents of the University of the State of New York and the University of Illinois. In New York the Regents were and still are largely from the professions of journalism, law, medicine and ministry with some from business, while the faculty of the University of Illinois was composed of educators. The University organized a Committee on Accountancy of which Dean David Kinley was the chairman. And even though he had known of accountancy in Great Britain, as stated by Ernest Reckitt in THE JOURNAL OF ACCOUNTANCY for May 1940 Vol. LXIX, page 380, a recent letter from Doctor Kinley stated that in 1903 or 1904 he asked accountants to define the term public accountant.

Perhaps this was the first official effort to secure a definition of the term. And it seems that this effort was the basis, at least in part, for two articles by Dean Kinley, brief quotations from which are here given.

In THE AUDITOR, Chicago, for February 1905, Vol. I, page 88, he stated:

"I have recently sought the opinions of a large number of accountants concerning the proper sphere of the work and the duties of the accountant. The opinions differ so much that a layman may well ask to be excused from saying what subjects an accountant ought to know."

And in THE JOURNAL OF ACCOUNTANCY for July 1906, Vol. II, page 187, his article on The Field of Accountancy was begun with these two paragraphs:

"Some time ago, I had occasion to try to get an adequate and correct idea of the duties of public accountants. In order to get the benefit of expert advice, letters were sent to forty or fifty accountants asking them to define the term 'public accountant.' Between thirty and forty replies

were received, and they form the basis of this article.

"As is usual in such cases, a good proportion of the answers are not usable. Of the answers which may be regarded as good definitions, in the proper sense of that term, the following are, perhaps, the best examples":

These paragraphs were followed by over three pages of quotations, condensations and, possibly, paraphrases of nine answers, the last having come from a railway accounting officer, and the others perhaps from unnamed public accountants. The article continued with a discussion of the answers, followed by the author's own definition apologetically stated as that of a layman.

However, in neither of these articles did Doctor Kinley state what was the reason for his asking for the definitions; whether as an educator for suggestions as to what instruction for accountancy should embrace; or as chairman of the Committee on Accountancy to judge whether an applicant for a C.P.A. certificate upon a waiver of examination had practiced as a public accountant for the statutory period of five successive years. And, while at that time it may well have been desirable to withhold the names of authors of the definitions, especially as they were to be weighed and evaluated, from the historical point of view the indentity of the authors may be as important as the definitions they submitted.

For that reason it seems fortunate that the answers have been found, though surely condensed and possibly also incomplete. In the files of the late George Wilkinson, there was found an interesting document which his executor gave to this author. It consists of two sheets 14" x 17" and is hand written, apparently by Mr. Wilkinson. It is captioned: "Condensed statement of replies received in answer to query of Dean David Kinley of University of Illinois—What is a Public Accountant?" The pages are ruled into three columns, which from left to right are headed "Names of Correspondent, Address, Synopsis of Correspondents, replies." Single alternate lines are used on each sheet, the first sheet containing 21 entries, the second only 7 entries. The names of the correspondents are not arranged alphabetically or grouped by cities. To this author it seems that the document includes all the replies that were known to the person who prepared it. Even so it is of course possible that it is not complete since it lists only 28 replies whereas Dean Kinley in THE JOURNAL OF ACCOUNTANCY stated that he received between 30 and 40.

But without questioning the judgment of Doctor Kinley in his selection of the definitions which he considered the best, perhaps there may be more enlightenment in knowing what public accountants then said of themselves in answer to "What is a Public Accountant?"

From Chicago eighteen replies were received.

"A man of wide experience in the science of accounts, one employed by such as require an accountant to open, close or examine books."

Charles W. August

"A competent, skillful, versatile, resourceful, experienced and discreet investigator in the realm of accounts, at the service of the public."

Edwin Rice Baker

"One who by ability, study and experience is enabled to analyze correctly any form of accounts, to determine exact facts, and who has the integrity to report exact conditions. Must have broad knowledge of business conditions."

Robert S. Buchanan

"One who is master of the science of accounts. He must have had practical business training and possess a general perception of business principles."

Gerald L. DeVor

"One who is skilled and learned in creating, devising and recording financial, pecuniary or statistical accounts, not restricting his services to one office or set of accounts."

John Everett

"One who by training and experience has acquired such knowledge of the theory and practical application of theory, of accounts, as to enable him to express a correct opinion on points of accountancy."

Edward E. Gore

"One conversant with the Science of Accountancy and open to employment by the general public."

A. F. Rattray Greig

"Generally understood to imply expert knowledge by age and experience which a person of 21 years of age cannot possibly have acquired."

Laurence A. Jones

"He should be a thorough business expert and able to practically apply his knowledge."

J. Porter Joplin

"A professional man whose services are devoted to organizing, examining and reporting upon any and all classes of accounts."

R. O. Macdonald

"Principal function is study of methods of a business and subsequent designing of proper system of accounting."

Henry Millard

"Principal requirements are ability to correct chaotic conditions and present true facts concerning accounts. Experience of business complications a necessity."

Louis G. Peloubet

"An accountant whose services are supposed to be at the command of any person. One versed and skilled in the theory and practice of accounts."

John C. Pirie

"One qualified to act as special commissioner or referee for a court of record, to certify to correctness of a/cs required by law. Term is usually applied to professional accountants whose work, however, is virtually the opposite of public—i.e. confidential.

Charles Rudolph

"A person possessing ability to investigate correctness and honest administration of commercial undertakings, of high integrity and wide knowledge of business custom and law."

Philip T. Sandt

"One skilled in accounts, practicing his profession—The word Public being used to distinguish him from the accountant employed by a firm or corporation and whose duties are limited to one class of work."

Allen R. Smart

"A scientific, experienced accountant skilled in the work of accountancy and capable of planning and executing any kind of accountancy."

Carrie Snyder

"A person possessed of a thorough knowledge of business principles and methods and the best ways in which to express those principles in the books and other constituent parts of the business to make a harmonious whole."

Seymour Walton

From Springfield, Illinois, the one reply was as follows:

"A person skilled in designing, keeping, adjusting and auditing accounts; versed in commercial law and business in general, who designs, examines and reports on systems of accounts."

Jacob M. Appel

From St. Louis also there was one reply:

"One who by experience has attained a position of authority in the conduct and effect of business transactions.—A business counsellor."

John A. Cooper

From Cincinnati two replies were received:

"A person engaged in Accountancy as a doctor is in medicine, or a lawyer in law. The prefix Public is necessary owing to the fact of bookkeepers calling themselves accountants."

Richard F. Ring

"A Public Accountant is one holding himself in readiness to serve the public in matters of accountancy. One well versed in matters pertaining to records."

Frank E. Wenner

From Philadelphia one reply was received:

> "A person skilled in Accounts & Commercial Ways offering his service to the public in auditing, making examinations, designing, installing and advising concerning accounts."
>
> Joseph E. Sterrett

From New York five answers were as follows:

> "One who by training and experience is fitted to perform professional service in devising systems of, installing, auditing, supervising and reporting on accounts."
>
> Frederick A. Cleveland

> "A person skilled generally in commercial affairs, and particularly in the accounts relating thereto, who places his service at the disposal of the public."
>
> A. Lowes Dickinson

> "One who by study, training and eventual experience has the ability to render professionally services in inaugurating, simplifying, verifying and reporting on accounts."
>
> Frank C. Richardson

> "A person skilled in the practice of accountancy whose services are at the disposal of the public."
>
> George Wilkinson

> "Degree should be granted only to those having passed C.P.A. examination and having 3 years experience in practicing accountancy in office of expert public accountant."
>
> Henry W. Wilmot

Of these 28 definitions only 3 were from accountants who had contributed answers to THE PUBLIC ACCOUNTANT three or four years earlier. And in the total which was almost the same as in the earlier list, the answers which mentioned the professional status of the public accountant increased from 7 to 13, while there were fewer who particularized as to the nature of the services he rendered. As to qualifications the answers which called for educational preparation increased from 9 to 13, those which called for experience from 10 to 15, those which stressed ability dropped from 13 to 10, and only 1 mentioned tactfulness instead of 7 as before. And as to governing principles, honesty was mentioned in only 2 answers whereas 10 of the earlier answers called for it, as did 6 that he be unprejudiced and 4 that he be fearless, not mentioned in this list.

However, the subject continued to be of interest and about 1908 the late J. S. Morris Goodloe, chairman of the Ohio Board of Accountancy again asked for definitions. No record of the responses has been found.

The National Association of Certified Public Accountant Examiners met in Denver during the 22nd annual meeting of the American Association of Public Accountants, October 18-21, 1909, and THE DENVER EXPRESS of October 20, 1909 in reporting the meeting of the Examiners said that the following definition was adopted:

> "A public accountant is a person skilled in the affairs of commerce and finance, and particularly in the accounts relating thereto; who places his services at the disposal of the community for remuneration, but not entirely at the disposal of any one individual, firm or corporation, and who maintains an office at which his services may be engaged."

The report continued: "It is the opinion of the organization that this definition will be accepted by the courts."

So far as ascertained this was the earliest official definition of the term.

The earliest statutory definition of a public accountant was in SECTION 3941e-7 OF THE KENTUCKY ACT OF 1916, the first C.P.A. Law of that state.

> "For the purpose of this act a public accountant is hereby defined as a person skilled in the knowledge and science of account-

ing, who holds himself out to the public as a practicing accountant for compensation and who maintains an office for the transaction of such and whose time during the regular business hours of the day is devoted to the practice of accounting as a professional public accountant."

This illustrates a common difficulty in phrasing a definition. Except for the requirements of his being "skilled in the knowledge and science of accounting" and one "Who maintains an office for the transaction of such * * *", the statute defines a public accountant first as "a practicing accountant", and then as "A professional public accountant." Perhaps it was assumed that, except as to the two stated requirements, what a public accountant is was a matter of common knowledge.

With all this background, The New York State Society of Certified Public Accountants, cooperating with the State Education Department prepared a definition which became SECTION 1489 OF ARTICLE 57 OF THE EDUCATION LAW OF NEW YORK.

> "As used in this article * * * (6) the public practice of accountancy within the meaning of this article is defined as follows: A person engages in the public practice of accountancy who, holding himself out to the public as an accountant, in consideration of compensation received, or to be received by him, offers to perform or does perform, for other persons services which involve the auditing or verification of financial transactions, books, accounts or records, or the preparation, verification or certification of financial accounting and related statements intended for publication or for the purpose of obtaining credit, or who, holding himself out to the public as an accountant, renders professional services or assistance in or about any or all matters of principal or detail relating to accounting procedure or the recording, presentation or certification of finanacial facts or data."

Although stated as a definition of the public practice of accountancy, this section, as of the date of its enactment, April 3, 1929, gave the answer in this State to the question "What is a Public Accountant?" And since the section has not been repealed or amended it is still the answer in New York. It does not indicate whether it gave a new meaning to the term or was the statutory recognition of a previously accepted description of what constituted one a public accountant.

A few years later the Regents on February 22, 1935, approved the Syllabus for Candidates Taking the Certified Public Accountant Examination which had been prepared by the State Board of Certified Public Accountant Examiners, and was issued as UNIVERSITY OF THE STATE OF NEW YORK BULLETIN August 1, 1934 No. 1049. The second paragraph on page 7 was as follows:

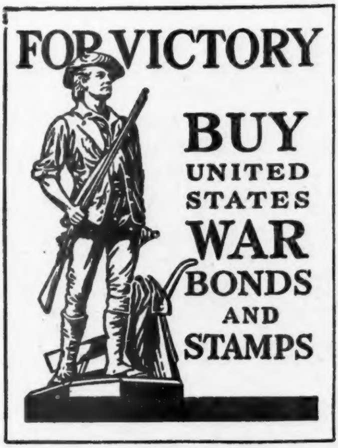
> "Accountancy is a profession the members of which offer for compensation their services in all matters relating to the analysis, classification, recordation, verification, presentation and interpretation of financial facts. There exist the private practice of accountancy and the public practice of accountancy."

The syllabus continued with a definition of each class of practice, that for public practice being a quotation of section 1489 (6) of the Education Law, followed by:

> "The public practice may be engaged in on one's own account, either alone under one's own name or as a partner in a firm, and per-

sons are deemed to be in public practice when employed upon the professional staff of such an individual or firm in public practice."

These official New York definitions of 1929 and 1935 will govern in the classifications hereinafter made in these chronicles.



Bookkeeping Education in the New York City High Schools

By Irving Raskin

A RECENT article by Nathan H. Lenert[1] indicts the teaching of Bookkeeping in the New York City high schools with respect to educational objectives, subject matter, teaching methodology and teaching personnel.

The current article will attempt to consider each of these items objectively, with the hope that the reader will be able to envisage clearly and appraise fairly what we in the schools are doing.

Objectives

At the outset, it should be understood that Bookkeeping is but one of the courses of study in the commercial curriculum. The high school commercial curriculum actually offers four fields of specialization, namely Stenography, Bookkeeping, Merchandising, and Clerical Practice. The offerings in these areas are not mutually exclusive, the diploma requirements being sufficiently flexible to permit of a major in one field with a minor in another. As a matter of fact, most of the commercial pupils are programmed for multiple-skill development.

To be effective, business education, like other types of education, must prepare for living a complete life, only part of which is the earning of a living.[2] Parents do not send their children to high school for the sole purpose of having them trained as bookkeepers.

The old vocational viewpoint conceived the commercial course, as Mr. Lenert apparently, still does, as a clerical mill for grinding out bookkeepers, stenographers, salespersons, etc. The modern viewpoint is that we must provide an enriched course, which, in addition to a measure of vocational competence, will "develop in each individual the knowledge, interests, ideals, habits and powers, whereby he will find his place, and use that place to shape both himself and society toward ever nobler ends."[3]

Subject Matter

The Bookkeeping course is based on a time requirement of five forty-minute recitations a week for a period of two years. A third year of the subject may be taken as an elective. The study of the subject is begun in the second year of high school, at which time the average pupil is fifteen years of age. Since the pupil is required to take a comprehensive Regents' examination after two years' study of the subject, the recommendations of the State Education Department with regard to content are, of necessity, reflected in local syllabi. The reader will undoubtedly recognize that the State Education Department is the same authority that is responsible for the licensing of CPA's and members of other professions.

The Board of Regents does not impose a rigid syllabus on the local communities. It has made flexibility the keynote of syllabus adaptation. "In prescribing the scope and content of high school Bookkeeping, an effort has been made to begin with

[1] Nathan H. Lenert, "The Training of Bookkeepers in New York City High Schools." *The New York Certified Public Accountant,* September, 1944, page 572.

[2] John L. Tildsley, *Annual Report,* Board of Education, New York City, June 30, 1933, page 572.

[3] *Cardinal Objectives of Secondary Education,* U. S. Office Bulletin 1918, No. 35, page 3.

basic facts upon which double entry Bookkeeping rests and to let the topics presented grow in logical sequence out of these fundamental considerations."[4]

Just exactly what are the purposes of Bookkeeping instruction? Our syllabus[5] includes, among others, the following general aims:

a. To give pupils a knowledge of bookkeeping principles and the ability to apply these principles to practical business situations.

b. To give pupils a knowledge of present-day business procedures in order that record-keeping may be meaningful to them.

c. To develop in pupils the ability to interpret accounts and financial statements as a guide to intelligent business management.

d. To inculcate proper habits, attitudes and ideals necessary for success in the business world, and in the conduct of one's own personal affairs.

e. To inculcate in pupils a realization of the necessity of absolute accuracy in record-keeping.

In the work of the first term, the pupil learns to keep records of assets, liabilities, and capital, and to record changes in their value; to be skillful in the mechanics of the account, and in its interpretation; and to prepare very simple financial statements. He also learns the purpose, use, form and content of business papers, and the routine of business procedure.

In the second term, he learns to use simple forms of various journals, to post, take trial balances and prepare simple statements. At this stage he learns about time and sight drafts.

In the third term, the pupil is ready to master the controlling account system. He posts, takes trial balances, prepares schedules of the subsidiary ledgers and also prepares classified statements involving the more obvious deferred and accrued items. Transactions peculiar to the work of the third term involve the discounting of negotiable paper, the writing off of contingent liabilities, the journalizing of correction entries, the setting up of valuation reserves, and an introductory treatment of payroll record-keeping.

In the fourth term, records peculiar to a partnership, and the imprest cash system are introduced. The emphasis in this term is on the complete bookkeeping cycle.

In the third year, we have an opportunity to give extensive treatment to the modern payroll, sales and luxury taxes, the voucher system, simple manufacturing records, simple corporation records, and projects which serve to integrate everything the pupil has learned about bookkeeping and business procedure and to provide him with increased arithmetical practice—all of which serve to meet the standards of occupational competence.

Mr. Lenert would have us confine our instruction to ordinary bookkeeping routines with the striking of a trial balance as the goal. On this point, we differ strongly. Our course calls for these rudiments—and much more. The pupil who completes our Bookkeeping course meets the standards set by the business community. Pupils who do not complete at least two years of Bookkeeping, whether drop-outs or graduates, are not considered sufficiently competent to be entrusted with a set of books in a business office. The drop-out medical student is not a physician; the drop-out engineering student is not an engineer. By the same token, the drop-out bookkeeping pupil is not a bookkeeper. One should not fall vic-

[4] Univ. of State of N. Y., Syllabus in Commercial Subjects: Bookkeeping, 1944, page 5.
[5] *New York City Syllabus in Bookkeeping,* foreword, page 2.

tim to the error of judging a program of instruction on the basis of contacts with incompetent employees, whose limited backgrounds are the result of fragmentary learning.

In normal times, our Placement Bureaus regularly received "repeat" requests for bookkeepers from satisfied employers. The business offices in this community are manned to a large extent by the products of our school system. Business men and accountants depend on the competence of the workers who produce their records. And to a large extent, the Bookkeeping teachers of New York City, through the effectiveness of their instruction, have contributed to the efficiency of the business offices of the Metropolitan area.

We do not deny Mr. Lenert's assertion that beginning employees say, "But this is not the bookkeeping that we studied at high school." We recognize that systems vary with types of business. Nor is it unusual for *experienced* bookkeepers to remark that "the bookkeeping I do here is not the bookkeeping I did on the other job." And even experienced accountants often resort to special manuals on systems when they secure a new client in an unfamiliar field. Bookkeeping for an insurance agency differs from bookkeeping for a diamond importer; bookkeeping for a whloesale clothing manufacturer differs from the bookkeeping for a dry-cleaning establishment. Obviously, the records of a business will reflect the peculiarities of that business. We cannot aspire in the limited time available, to acquaint pupils with every type of system. Instead we concentrate our efforts on developing a common denominator of all systems, recognizing that actual employment will provide the orientation to the specific set of books in use. This view is fortified by the knowledge that our graduates do not require lengthy apprenticeship to adapt themselves to the new situation.

Methodology

The assertion that "instruction in Bookkeeping is conducted today as it was at the beginning of this century" is rather interesting. An inspection of Bookkeeping texts in use at the beginning of the century and in use today hardly supports this view; in fact, the direct opposite is indicated.

Thirty years ago, Kahn and Klein described the teaching of Bookkeeping prevalent in their day as follows:

"The present teaching of accounts consists, in general, of a scheme whereby rules are arbitrarily assigned, often disguised as reasons by the use of the logical conjunctive, *because,* and by an attempt to impart familiarity by long-continued repetition of assigned model forms. The work is absolutely deductive, and this at a stage when it ought to be entirely inductive. The student is required to take everything on faith; if he errs in journalizing, he is told, 'You are wrong because Cash must be debited when received.' "[6]

The work consisted of extremely long sets, with much repetition of the obvious. The authors criticized the "stultifying influence of such procedure," and observed that "the faculty of imitation" is appealed to almost exclusively. The appeal to reason, the arousing of the appreceptive basis, the stimulation of the imagination—for all of which the subject offers a great opportunity—are almost entirely neglected.

"Our objections to a continuance of such procedure are: first, an undue mass of materials; second, the dispersion of effort by requiring as much attention to what is already known as to new matter; third, the practical impossibility of devoting more time to work of greater value to the pupil, such as the making of statements and the drawing of inferences from the

[6] Joseph Kahn and Joseph J. Klein, *Principles and Methods in Commercial Education,* Macmillan, 1914, pages 156-7.

books. It seems to us that the solution is suggested in the neglect of commercial teachers to heed that sound pedagogic doctrine which enunciates that the best method of learning a topic is to understand it. That which one understands, one need not memorize."[7]

Similar condemnation was voiced by Robert H. Montgomery in 1916, before the business education section of the National Education Association, "If I could, I would teach Bookkeeping by talking to the students about it, rather than by requiring them to spend most of their time copying and posting and taking trial balances. So far as I have been able to discover, courses in Bookkeeping are just one thing after another. The student is so exhausted by the time he finishes one practice set that—if he receives a passing mark—he hopes that he will never see it again."

The evolution of bookkeeping instruction has gone through the following stages:

a) The *account* approach, in which all entries were made directly in accounts and rules were developed for debits and credits.

b) The *journal* approach, in which many rules were memorized and transactions were journalized in accordance with the rules. This method was also called the chronological method of dealing with the subject.

c) The business situation approach in which the pupils imitated actual business practice by recording transactions at the very outset from business papers into the special journals, posting to the ledger, etc.

The successor to these obsolete methods is the modern *balance sheet* or *capital equation* approach, in which all account concepts are developed in terms of their relationship to the balance sheet. The pupil learns at once the elements of the fundamental equation and analyzes each business transaction for the changes produced in the value of assets, liabilities, and capital. This facilitates the learning of the principles of debit and credit through reasoning rather than by recourse to a maze of arbitrary rules learned by memorization.

The balance sheet method of teaching bookkeeping is not confined to the City of New York. An inspection of textbooks used extensively throughout the United States will reveal:

1) that they are written by eminent certified public accountants, who have had extensive teaching experience in secondary and higher institutions, and whose influence has been felt everywhere.

2) that these authors are unanimous in their approach to the study of bookkeeping by means of the "capital equation" approach.

3) that these experts reject any method which would have pupils learn rules arbitrarily.

An inspection of the bulletins issued by twenty-six larger cities in the United States discloses that these communities universally approach the instruction of Bookkeeping through the balance sheet method.

The United States Armed Forces Institute employs this method in the Self-Teaching Course,[8] it offers to members of the armed forces who wish to learn Bookkeeping.

Mr. Lenert would have the reader believe that our type of instruction is inadequate, unrealistic and unproductive of intelligently trained bookkeepers. A typical narrative in our third-term classes calls for the following:

a) Entry work in journals

b) Closing and summarizing of the journals

c) Posting to the general and subsidiary ledgers

[7] Ibid.

d) Taking a trial balance

e) Preparing schedules of the subsidiary ledgers

In addition, one or two complete sets per term call for other phases of the bookkeeping cycle, covering statement work, making of adjusting and closing entries, and preparing a post-closing trial balance.

When pupils are led to examine the records they have prepared and to extract their meaning, they are well taught; methods which elicit such responses are progressive, not archaic.

The teacher of today motivates every lesson to arouse pupil interest, without which effective learning cannot take place. The teacher of today has a better understanding of the laws of learning and avails himself of these toward making the classroom experience a rich and meaningful one to the pupils. Contrast this with the teacher of the earlier era, who sat at his desk with "key" in hand. He did not require great qualities of mind to direct the solution of Bookkeeping problems. All the wisdom was vested in the "manual"—a teacher without a "key" meant a class without instruction. That was the type of teacher that entered the school system via the private business schools at the turn of the century. That teacher and his methods are archaic!

Teaching Personnel

With reference to teaching personnel, Mr. Lenert blandly asserts that "by far, most of the high school teachers of Bookkeeping never saw the inside of a business office. They were elementary school teachers who took a course in Accounting and then passed the examination to teach commercial subjects."

To men trained in the science of verifying business statements, a general denial of this allegation would prove just as unsatisfactory as the original charge. Consequently, let us examine the facts. In the 1933 Annual Report[9] of the Superintendent in Charge of High Schools, we find an official statement which will shed light on the preparation of teachers:

"About five years ago (1928) the Superintendent in Charge of High Schools appointed a committee of first assistants under the chairmanship of the Director of Commercial Education, to prepare a commercial teacher-training program. Two years were devoted to this study, which was carried on in collaboration with a member of the Board of Examiners. Conferences were held with the deans of the Schools of Education and the Schools of Business in our local colleges. A four-year course was finally promulgated, which was approved by the State Education Department and which is now offered at four of our local colleges.

"As an outcome of this study, the eligibility by-laws of the Board of Education were amended in 1931, making graduation from a four-year professional course a condition for eligibility. In addition to this requirement, a candidate for the license to teach commercial subjects must offer a year of business experience and a year of teaching experience in his specialty."

In a circular released by the Board of Examiners,[10] the following eligibility requirements for Bookkeeping teachers are set forth:

A) Preparation: A baccalaureat degree (or equivalent preparation), *and* in addition: 15 semester hours in approved graduate or undergraduate courses. The said preparation shall include:

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[8] *United States Armed Forces Institute, Bookkeeping and Accounting Fundamental Principles, Course 1,* 1943.

[9] Page 358.

[10] *Board of Examiners, Requirements for License as Teacher of Commercial Subjects in Day Secondary Schools other than Junior High Schools. Mimeographed Circular.*

1. 12 semester hours in appropriate courses in the following fields, including one course in each of such fields:

a) History, philosophy, principles and/or problems of education.

b) Adolescent development or educational psychology.

c) General methods of educational measurements.

d) Special methods of teaching the subject; *and*

2. 42 semester hours in approved courses related to the subject to consist of:

	Semester Hours Min.	Max.
Advanced bookkeeping and accounting	12	16
Office practice	2	4
Business Law	6	8
Business mathematics and/or commercial arithmetic	4	6
Business management and organization	2	4
Money, banking and finance	2	4
Economic geography	2	4

3. *Experience:* Teaching and business experience are required as follows:

(1) One year of teaching the subject in grades above 8B or in college; or two years of teaching the subject in schools; *or* five years of teaching.

(2) One year of approved and appropriate commercial experience, comprising a minimum of 1,200 hours of satisfactory business experience embracing at least twelve calendar months is required. The appraisal of this experience will be based on the following considerations:

a. The relation of the duties and type of work performed to the license in the special field applied for.

b. Proof of compensation for the work performed.

c. The character of the establishment in which the applicant was employed.

d. Availability of documentary evidence of the specific work performed on the job by the applicant.

With such requirements, is it conceivable that "by far, most high school teachers never saw the inside of a business office? That they were elementary school teachers who took a course in Accounting and then passed the examination to teach commercial subjects?"

Either Mr. Lenert has not kept pace with developments in the schools in the twentieth century or he wilfully accuses the Board of Examiners of licensing people who have not met the requirements of thorough preparation in business courses, supplemented by practical business experience.

Let us see how these requirements have influenced the educational preparation of our teaching force. The following analysis is based on current data on file with the High School Division's Standing Committee in Accounting:

SUMMARY OF EDUCATIONAL BACKGROUND OF NEW YORK CITY HIGH SCHOOL BOOKKEEPING TEACHERS

No. of Degrees	*No. of Teachers*
No Degrees	9
One "	126
Two "	170
Three "	41
Four "	8
Total	354

We have in our ranks 46 certified public accountants. In addition to the holders of liberal degrees (many of which represent majors in business), there are 178 holders of the B. C. S. or B.B.A. degree, and 43 holders of the M. B. A. degree. Forty-eight teachers hold law degrees.

Our records show that 90 out of 354 bookkeeping teachers (or 25.4%) served in the elementary schools an average of 8.8 years; 28 (or 7.9%) served less than five years; 21 (or 5.9%), from 5 to 10 years; and 41 (or 11.6%), more than 10 years. Two hundred and sixty-four teachers (or 74.6%) began their teaching service at the high-school level. Forty-one teachers have taught accounting and related subjects at college.

In the light of such abundant evidence of scholarship in the spheres of

accounting and business, and of continuing experience in these fields, Mr. Lenert's argument that the teachers "do not feel at home teaching practical bookkeeping because they themselves never practiced it" falls to the ground. When the writer says that our teachers "do not feel confident that they know the best method of entering certain transactions," he is again pursuing a false premise to its illogical conclusion.

The extent of business experience of our bookkeeping teachers is summarized in the accompanying tabulation:

BUSINESS EXPERIENCE*

PRIOR TO APPOINTMENT

Number of Teachers	*Type of Service*	*Average Years*
283	Accounting	5.2
63	Merchandising	3.4
21	Law	4.2
77	Other	4.0
30	No data	...
	SUBSEQUENT TO APPOINTMENT	
218	Accounting	8.7
20	Merchandising	7.6
25	Law	12.2
33	Other	8.0
113	No data	...

* A number of teachers report experience in several categories.

When bookkeeping teachers, alive to their responsibilities, attend their conventions twice a year, meet three times a year as a section of the New York Society for the Experimental Study of Education, publish scholarly Yearbooks[11] devoted to subject matter and teaching methods, write for numerous professional magazines, organize in-service courses and workshop committees for the development of new instructional materials, keep abreast of current thought through a monthly bibliography,[12] the community need have no fear that the teachers are in a rut, out of touch with reality, and that "the bookkeeping classroom is an oasis of theory and philosophy where the teachers shy away from customary practice."

[11] Commercial Education Association, *Year Books,* 1931 to date.

[12] Keeping Posted. Edited by Dr. I. David Satlow of Bushwick High School, 1940 to date.

C. P. A. Examinations given by the University of the State of New York; November 8, 9, and 10, 1944

PRACTICAL ACCOUNTING—PART I

Wednesday, November 8, 1944—1.30 to 6 p. m., only

The Practical Accounting paper consists of part I and part II.

State your examination number on each sheet. Do not sign your name.

Consider carefully each requirement of each problem. Designate each solution by number. Consider technic and neatness as carefully as mathematics.

Answer the questions as directed under each group.

Group I

Answer one question from this group (30 credits). Indicate selection by a check mark (√) placed at the left of the number on the question paper.

1 From the following particulars, prepare a statement of manufacturing, trading, and profit and loss, year ended December 31, 1943.

The Arctic Refreshment Company commenced business on January 1, 1943. The company manufactures automatic vending machines, places them on sites rented upon the basis of one fifth of the takings and sells penny packages of Refreshmints through them.

The mints are purchased at 58⅓ cents a box of 100 packages. One free box is received with every six bought.

The company also sells these vending machines to storekeepers, etc., to whom it supplies the mints at 58⅓ cents a box.

The transactions for the year 1943 are summarized below:

Sales of Refreshmints:	
Through machines	$280,000.00
To machine owners	10,500.00
Sales of vending machines:	
1000 machines	35,000.00
Purchases:	
Refreshmints, 350,000 boxes	204,166.67
Manufacturing materials	250,000.00
Expenses:	
Factory wages	45,000.00
Rent of machine sites	56,000.00
Machine repairers' wages (factory)	7,000.00
Factory rent and taxes	25,000.00
Overhead (to be apportioned in the ratio of net purchases)	8,500.00
Expense of collection from machines	28,000.00
Depreciation:	
Machinery and equipment	1,500.00
Machines on sites:	
10% of cost, this including $18,333.33 for fixing on sites	
Tools, patterns, etc.	1,000.00
Bonus on purchases of Refreshmints	29,166.67
Credit is to be considered for uncollected sales in machines, estimated at	5,000.00

During 1943, 11,000 machines were manufactured for the company's use.

Ending inventories:

Mints on hand at end of year, and in machines on date of last collection: 52,000 boxes	$ 30,333.33
Manufacturing materials	25,000.00
Work in process	22,500.00

2 Prepare balance sheet, June 30, 1944.

OLD BOYS' AND BROTHERS' BETTERMENT ASSOCIATION

General Ledger Trial Balance—June 30, 1944

Administrative department expense	$ 20,937.22	....
Administrative department income	....	$ 376.96
Agency fund cash	976.32	....
Agency fund liabilities	....	976.32
Buildings	246,375.42	....
Cafeteria expense	25,722.90	....
Cafeteria income	....	16,228.95
Contributions pledged—general	185,942.38	....
Dormitory accounts receivable	226.90	....
Dormitory expense	36,245.31	....
Dormitory income	....	25,863.78
Education department expense	36,584.82	....
Education department income	....	22,532.68
Endowment fund cash	637.20	....
Endowment fund—general	....	196,401.04
Endowment fund income	....	11,468.95
Endowment fund securities	195,763.84	....
Equipment	190,219.34	....
General cash	17,275.31	....
General contributions and gifts income	....	247,110.62
General fund	....	6,002.76
Income from temporary investments—general	....	642.21
Inventory—supplies	3,268.94	....
Land	150,000.00	....
Loan fund contributions	....	5,768.80
Mortgage payable—land and buildings	....	150,000.00
Notes payable—general	....	20,000.00
Permanent asset fund	....	335,741.05
Petty cash funds	500.00	....
Physical department expense	16,476.41	....
Physical department income	....	9,278.62
Reading room expense	9,768.30	....
Reading room income	....	536.25
Reserve for depreciation	....	85,376.41
Reserve for bad dormitory accounts	....	114.62
Reserve for bad miscellaneous accounts	....	28.42
Reserve for bad tuitions	....	328.94
Restricted contributions	....	86,336.01
Restricted contributions cash	4,496.70	....
Restricted contributions income	....	2,326.54
Restricted contributions investments	61,946.05	....
Social service department expense	38,052.74	....
Social service department income	....	15,815.41
Student and other loan funds cash	4,125.75	....
Student and other loan funds income	....	356.95
Students and other loan funds notes receivable	2,000.00	....
Sundry accounts receivable	245.95	....
Temporary investments—general	13,656.98	....
Tuition accounts receivable	1,845.20	....
Vouchers payable	....	23,677.69
	$1,263,289.98	$1,263,289.98

The following information is to be considered:

(1) Dormitory accounts receivable are all considered collectible.

(2) Miscellaneous accounts receivable are all considered collectible.

(3) Only $400 of the tuition accounts receivable are considered collectible.

(4) Accrued income on investments:	
(*a*) Endowment fund securities	$ 2,031.22
(*b*) Restricted contributions investments............	889.90
(*c*) Temporary investments—general	114.22
(5) Prepaid interest on notes payable, general was........	135.42
(6) Expenditures from restricted fund assets, not yet adjusted:	
(*a*) Additional equipment	15,477.30
(*b*) Educational department lectures	6,742.50
(7) All income from endowment fund assets is available immediately for general purposes.	
(8) Accrued interest on mortgages payable was.......... Mortgage interest is payable from general funds.	2,250.00
(9) Pledges totaling .... applicable to the year beginning July 1, 1944, were received. These were debited to contributions pledged—general and were credited to gifts income.	195,942.38
(10) Pledges (related to the above) of................. were collected in cash. These were debited to general cash and were credited to contributions pledged—general.	10,000.00
(11) Balance of contributions pledged—general is considered collectible except for.................... which should be reserved against.	19,594.24
(12) Depreciation on buildings and equipment was........ This has not been recorded.	18,376.50

Group II

Answer one question from this group (20 credits). Indicate selection by a check mark (√) placed at the left of the number on the question paper.

3 Prepare:

a Statement of affairs as at December 31, 1943, to show amount

(1) Of unsecured liabilities

(2) Available to meet these unsecured liabilities.

(3) Of assets (if any) to be returned to the stockholders in the event of company dissolution as based upon the appraised value of the assets

b Statement reconciling the investment per books with the surplus of assets available for stockholders per statement of affairs.

Bolling Green & Company were unable to meet their outstanding obligations as at December 31, 1943. At a creditors' meeting you are retained to prepare the statements as called for above.

The books were closed as at December 31, 1943, after which the following post closing trial balance was prepared:

Bank	$ 9,123.00	....
Petty cash	300.00	....
Accounts receivable	27,902.00	....
Reserve for bad debts	....	$ 972.00
Subscribers—preferred capital stock	20,000.00	....
Inventory	48,796.00	....
Deferred charges	4,603.00	....
Land and building	98,963.00	....
Reserve for depreciation—building	....	4,813.00
Equipment	24,963.00	....
Reserve for depreciation—equipment	....	11,207.00
Goodwill	100,000.00	....
Accrued pay roll	....	1,877.00
Accrued interest—notes payable	....	1,350.00
Accrued interest—mortgage payable	....	200.00
Notes payable	....	45,000.00
Accounts payable	....	21,769.00
Mortgage payable	....	20,000.00
Preferred capital stock	....	100,000.00
Common capital stock	....	100,000.00
Surplus	....	27,462.00
	$334,650.00	$334,650.00

The following information is to be utilized:

(1) Warehouse receipts for merchandise having an inventory value of $29,469 were pledged as at December 31, 1943, to secure $20,000 of liabilities against bank acceptances. The liabilities in question were included in notes payable. Appraised value of this merchandise was $24,500.

(2) The land, costing $25,000 and so recorded, was covered by the mortgage per trial balance. This land was appraised at $15,000.

(3) Collection of accounts receivable was estimated at $27,000.

(4) Sale of inventory not represented by warehouse receipts was estimated to realize $12,650.

(5) It was estimated that the equipment could be sold for $5,000.

(6) It was estimated that the building would bring $50,000.

(7) The cancellation of insurance policies and the sale of sundry supplies, etc., should realize $1,158.

(8) Holders of preferred stock had paid in cash 80 per cent of the par value of their subscriptions. For this they had received part-paid stock certificates.

(9) An unpaid Federal income tax liability for $188 was not recorded on the books as of December 31, 1943.

4 From the following information prepare:

a Certified balance sheet as of June 30, 1944, giving effect to the proposed financing as hereunder outlined. Include in the certificate the results of operations for the five-year period of your examination.

b Journal entries necessary to bring the books of account into agreement with the balance sheet after giving effect to the proposed financing.

The stockholders of the Dubois Manufacturing Company officially authorized the company officers to put into effect a refinancing scheme in harmony with the requirements listed below:

(1) An issue of $2,000,000 First Mortgage 6% Bonds maturing July 1, 1959, is to be sold to bankers at 92½ and the present First Mortgage 7% Bonds, of which $250,000 are outstanding, are to be called at 105.

(2) An issue of $1,100,000 preferred stock, 7% cumulative, par value $100, is to be sold (or exchanged) and the present 8% preferred stock, par value $100, of which $927,500 par value is outstanding, is to be retired at 110.

(3) A commission of $3 will be paid to bankers on each share of the present outstanding preferred stock which they succeed in exchanging for new preferred stock and a commission of $7 per share will be paid on each of the remaining new shares sold.

(4) New shares of common stock without par value (100,000 shares authorized) will be exchanged for the present $100 par value common stock, of which there are 12,493 shares outstanding, in the ratio of eight new shares for one old share.

(5) The loans and notes payable and the instalment mortgage are to be liquidated and the accounts payable are to be reduced by $250,000.

Your examination of the accounts of the company for the five-year period ended June 30, 1944, has uncovered the following:

(*a*) Interest on the old bond issue and all dividends on the old preferred stock have been paid.

(*b*) All the present holders of preferred stock have agreed to exchange their stock for stock of the new issue.

(*c*) The expenses to be incurred in connection with the proposed refinancing are estimated to be $25,000.

(*d*) The X Appraisal Company has appraised the value of the plant and equipment at the cost to reproduce new, less accrued depreciation, as of June 30, 1944, at $4,371,140.14.

(*e*) The net profits of the company for the five fiscal years ended June 30 were as follows:

1940	$270,403.01
1941	322,468.19
1942	191,910.59
1943	277,681.93
1944	251,330.23

(*f*) Federal income taxes have been settled to and including the fiscal year ended June 30, 1941.

(*g*) The taxable income for the fiscal year ended June 30, 1944, is estimated to be $250,000 before giving effect to the refinancing.

(*h*) The inventories were found to be substantially correct as to quantities and priced at cost or market, whichever was lower.

(*i*) The postclosing trial balance shown below was found to be correct:

Accounts payable	......	$ 593,570.81
Accounts receivable	$1,512,099.31	....
Accrued accounts	....	89,311.99
Capital stock common (12,493 shares)	....	1,249,300.00
Capital stock preferred (9,275 shares)	....	927,500.00
Cash	195,998.66	....
Cash surrender value—officers' life insurance	60,738.57	....
First mortgage bonds—due 1947	....	250,000.00
Guarantee deposits	6,325.19	....
Instalment mortgage (on property not covered by mortgage indenture)	....	9,724.29
Loans and notes payable	....	1,362,000.00
Marketable securities	27,713.24	....
Notes receivable	287,770.68	....
Plant and equipment, net of depreciation	1,828,400.57	....
Prepaid accounts	279,040.19	....
Product finished and in process	928,361.21	....
Railroad claims	599.62	....
Raw materials and supplies	492,169.59	....
Reserve for bad debts	....	29,000.00
Reserve for Federal taxes for fiscal year 1943-44	....	67,500.00
Sinking fund for preferred stock retirement, cash	17.46	....
Surplus	....	1,058,327.20
Unamortized bond discount and expenses	17,000.00	....
	$5,636,234.29	$5,636,234.29

THEORY OF ACCOUNTS

Thursday, November 9, 1944—9 a. m. to 12:30 p. m., only

Read and consider carefully each question before answering. Write your answer clearly and concisely, being particular to express your own knowledge, for on that is based the rating. If you wish, you may cite or quote authors in support of your answers. Designate each answer by number and check (√) number on question paper, but do not rewrite the question as part of your answer.

Do not sign your name to the paper. State your examination number.

Answer the questions as directed under each group. Papers entitled to 75 or more credits will be accepted.

Group I

Answer all questions in this group.

1 Should turnover of inventory be based on the inventory at the beginning or at the end of the period? Why?

2 Define controlling account and give *five* examples.

3 Prepare a list of *five* comparisons the plant manager should use in order that he may properly control the business.

4 Should fixed assets at the branch offices be carried on the home office books? Explain.

5 On what basis should depreciation of plant and equipment and amortization of development expenses be shown on the books of a mining company?

Group II

Answer five questions from this group. Indicate the questions answered by a check mark (√) placed at the left of number on question paper.

6 What are the main points of difference in the accounting systems of a municipality and a business organization?

7 What entries are necessary to reflect self-insurance on the books?

8 *a* Give *six* reasons why a trial balance may be out of balance.

b What types of errors may not be disclosed by a trial balance?

9 Explain at least *three* methods of admitting a new partner. Illustrate your answer with figures.

10 Explain briefly (*a*) single cost, (*b*) process costing, (*c*) job costs, (*d*) terminal costs, (*e*) multiple costs.

11 Describe the operation of the retail method of inventorying. Note its advantages, if any, over the cost or market method. Does it meet all requirements for preparing financial statements and tax returns?

12 Describe *four* methods of distributing departmental plant overhead to the manufacturing costs, stating the conditions under which each method should be used.

PRACTICAL ACCOUNTING—Part II

Thursday, November 9, 1944—1.30 to 6 p. m., only

State your examination number on each sheet. Do not sign your name.

Consider carefully each requirement of each problem. Designate each solution by number. Consider technic and neatness as carefully as mathematics.

Answer the questions as directed under each group.

Group III

Answer one question from this group (15 credits). Indicate selection by a check mark (√) placed at the left of the number on the question paper.

5 Prepare a statement showing details of the joint account.

Plant & Company and Edwards & Company agreed to ship merchandise to South America on joint account. Edwards & Company gave Plant & Company $1,200 in cash and their acceptances at six months for $3,000. Plant & Company were to provide any additional cash required, were to manage the venture and receive a commission of 2% for services. Profits are to be divided equally.

Plant & Company paid Smith & Greer for merchandise, $5,000, and sold Edwards & Company's acceptances for $3,000 less 2% discount. Plant & Company prepaid freight, $420, and insurance, $60. In due time, Plant & Company received from South America an account sales for merchandise and a draft for $3,200, out of which Plant & Company paid bills of $3,000.

Later Plant & Company received a draft for $3,100, the balance of proceeds of sale of merchandise. The joint account with Edwards & Company was closed and a check for the balance due them was paid to Edwards & Company.

6 John Doe starts in business with a cash capital of $15,000 and receives from a manufacturer $45,000 worth of goods on consignment, subject to a discount of 5% when he pays for the goods.

He sells all of the goods for a total of $60,000 and receives $44,000 cash from his customers, allowing them $400 discount and $1,200 for defective goods, which he returns to the manafacturer. He pays $2,100 for freight, of which

$1,400 is chargeable to the manufacturer, $900 for expenses and $37,950 to the manufacturer.

Prepare account of sales to be rendered to the manufacturer with the final remittance, balance sheet and statement of profit and loss.

Group IV

Answer one question from this group (35 credits). Indicate selection by a check mark (√) placed at the left of the number on the question paper.

7 Required: Adjusting journal entries and work sheet for the preparation of the annual statements

The Triangle Fertilizer Company manufacturers and sells chemical or commercial fertilizers for staple crops. As one of the principal ingredients of chemical fertilizer is acid phosphate, the company also manufactures this commodity, of which, part goes into its own fertilizers and part is sold to other manufacturers.

The trial balances and data as to inventories at December 31, 1943, and methods and practices peculiar to this company and this industry are given below.

Acid Phosphate Plant Ledger

Inventory—raw material (January 1, 1943)	$ 5,000	.....
Raw material received	47,100	.....
Labor	10,500	.....
Power	4,500	.....
Expended for repairs	2,000	.....
Taxes paid on acid phosphate plant	1,000	.....
Insurance paid on acid phosphate plant	1,000	.....
General ledger	......	$71,100
	$71,100	$71,100

On hand, December 31, 1943, raw material (at cost)	$11,500
Acid phosphate delivered to fertilizer plant	8,000 tons
Acid phosphate delivered on sales order	2,000 tons
Acid phosphate on hand December 31, 1943, none. On hand January 1, 1943, none	

Fertilizer Plant Ledger

Inventory—sundry materials (January 1, 1943)	$ 20,000	.....
Sundry Materials received	189,000	.....
Inventory—acid phosphate (January 1, 1943)—none		
Acid phosphate received (8,000 tons)		
Labor—mixing and stocking	9,000	.....
Labor—screening and bagging	6,000	.....
Power—mixing and stocking	3,600	.....
Power—screening and bagging	1,500	.....
Expended for repairs	5,000	.....
Taxes paid on fertilizer plant	3,300	.....
Insurance paid on fertilizer plant	1,650	.....
General ledger	......	$239,050
	$239,050	$239,050

On hand, December 31, 1943, sundry material (at cost)	$6,000
Acid phosphate	1,000 tons
Mixed and stocked goods (None on January 1, 1943)	3,000 tons
Screened and bagged goods, none, On hand January 1, 1943, none	
Mixed and stocked during year	18,000 tons
Screened and bagged	15,000 tons

General Ledger

Acid phosphate plant: Buildings	$ 20,000	.....
Machinery	54,000	.....
Fertilizer plant: Buildings	25,000	.....
Machinery	41,000	.....
Plant lands	10,000	.....
Furniture and fixtures	4,000	.....
Cash	10,000	.....
Accounts receivable	80,000	.....
Selling expenses	20,000	.....
General and administrative expense	12,000	.....
Superintendent of manufacturing—salary	4,000	.....
Factory office expense	6,000	.....
General office expense	10,000	.....
Interest paid	8,000	.....
Acid phosphate plant ledger	71,100	.....
Fertilizer plant ledger	239,050	.....
Accounts payable	......	$ 20,000
Notes payable	......	100,000
Sales—fertilizer	......	300,000
Sales—acid phosphate	......	17,000
Reserves for depreciation:		
Acid phosphate buildings (January 1, 1943)	......	2,000
Acid phosphate machinery (January 1, 1943)	......	14,000
Fertilizer plant (January 1, 1943)	......	5,000
Fertilizer machinery (January 1, 1943)	......	6,000
Furniture and fixtures (January 1, 1943)	......	1,000
Reserves for repairs:		
On acid phosphate plant (January 1, 1943)	......	8,000
On fertilizer plant (January 1, 1943)	......	2,000
Capital stock	......	100,000
Surplus	......	39,150
	$614,150	$614,150

(1) The two plants are under one superintendent and all details of pay roll, formulating, etc., are handled in one factory office situated between the plants; otherwise all operations are separate. The company considers that 34% of the superintendent and factory office burden is allocable to acid phosphate, the remainder to fertilizers.

(2) In the fertilizer plant the product goes through two successive processes: first, the raw material is milled and stocked in piles; second, the stocked material is screened and bagged. Some time may elapse between the operations, the second being applied only when goods are to be shipped out.

(3) In order to equalize repair charges over the years, 30¢ per ton is set up as a reserve for repairs in the acid phosphate plant for each ton made and considered as an item of cost. Actual expenditures for repairs are to be charged to the reserve so created. The reserve entry is made at the end of each year.

The same method is used in the fertilizer plant, the rate being 10¢ for each ton put through each process or 10¢ per process per ton.

(4) Depreciation rates are:

Acid phosphate buildings	3%
Acid phosphate machinery	10%
Fertilizer buildings	5%
Fertilizer machinery	5%
Furniture and fixtures	10%

(5) In case it becomes necessary to prorate any charge or burden between the two processes in the fertilizer plant, it is to be done on a tons-per-process basis, the charge per ton being considered equal for each process.

(6) General and administrative expense and general office expense are not to be considered as elements of production.

8 Required: Adjusting journal entries and work sheet for the preparation of the annual statements

The Service Corporation is engaged in rendering a professional service to business organizations. The operations are by departments in charge of managers, who receive nominal salaries plus a share of the net profits of their respective departments after allocation of the general overhead expenses but before Federal income and profits taxes, which may be ignored. The agreement with the department managers provides that the general expenses are to be charged directly to the operating departments, wherever practicable, and the remainder allocated on the basis of the gross revenues. The managers of the departments and their respective shares of the net profits are as follows:

Manager	*Department*	*Percentage*
Smith	A	40
Brown	A	10
Jones	B	35
Good	B	17.5
Wright	B	17.5
Black	C	50
Taylor	C	10
White	D	45
Johnson	D	5

The merchandise inventory at December 31, 1943, amounted to $19,500.

The costs on unbilled jobs on December 31, 1943, were as follows:

	Department		
	B	*C*	*D*
Salaries	$1,000	$ 500	$1,000
Materials	200	100	10
Travel	250	400	...
	$1,450	$1,000	$1,010

Depreciation is to be computed at 10% per annum on the closing balance.

Unentered bills payable on December 31, 1943, were as follows:

	Department			
	A	*B*	*C*	*D*
Royalties	$ 500	....	....	....
Outside costs	....	$2,000	$1,500	$ 600
Travel	....	400	200	50
Merchandise purchases	1,500	....	....	....
	$2,000	$2,400	$1,700	$ 650

Your examination of the accounts receivable shows uncollectible accounts of $375 for Department A sales and another account with a $500 balance. You are informed that the client disputed this charge and a corrected invoice was rendered for a lower amount, which was paid, but the account was not adjusted. This bill was rendered by Department C. The accounts also show that Department D has received cash of $3,000 in advance for services to be rendered during 1944.

A study of the outgoing telephone calls for a test period shows as follows:

Department A	10%
Department B	30%
Department C	15%
Department D	5%
General	40%
	100%

The floor plan indicates the space occupied by the various departments is as follows:

Department A	20%
Department B	35%
Department C	15%
Department D	10%
General	20%
	100%

The gross receipts tax is based on 1/20th of 1% of the previous year's gross revenues, which figures are not available.

The fire insurance premiums are for a 3-year period beginning January 1, 1943, on both merchandise stock and office furniture in the respective amounts of $15,000 and $10,000. The liability insurance premiums are based on the salaries paid for the current year.

The legal fees paid represent a retainer fee of $500 and an item of $250 paid in connection with a contract obligation of Department B.

The Parcel Post and Express account relates mainly to Department A and it is agreed that 90% shall be charged to that department and the balance to general overhead.

The trial balance at December 31, 1943, follows:

Cash in banks	$12,000	.....
Petty cash	500	.....
Accounts receivable	25,000	.....
Inventories of merchandise, January 1, 1943	15,000	.....
Office furniture and fixtures	10,500	.....
War bonds owned	10,000	.....
Managers' drawing accounts	22,500	.....
Accrued taxes	.....	$ 3,000
Accrued wages	.....	1,000
Accrued expenses	.....	500
Reserve for depreciation	.....	1,500
Capital stock	.....	1,000
Paid-in surplus	.....	750
Earned surplus	.....	13,800
Department A:		
Revenues	.....	60,000
Salaries	12,000	.....
Outside costs	.....	.....
Material	.....	.....
Travel	100	.....
Compensation insurance	100	.....
Old-age benefits taxes	120	.....
Unemployment insurance taxes	360	.....
Promotional	600	.....
Miscellaneous	720	.....
Merchandise purchases	35,000	.....
Royalties	1,000	.....
Department B:		
Revenues	.....	120,000
Salaries	24,000	.....
Outside costs	30,000	.....
Material	1,000	.....
Travel	3,500	.....
Compensation insurance	300	.....
Old-age benefits taxes	200	.....
Unemployment insurance taxes	600	.....
Promotional	1,500	.....
Miscellaneous	2,400	.....
Research expenses	1,500	.....

Department C:		
Revenues	.....	75,500
Salaries	18,000	.....
Outside costs	24,000	.....
Material	3,000	.....
Travel	3,400	.....
Compensation insurance	300	.....
Old-age benefits taxes	200	.....
Unemployment insurance taxes	600	.....
Promotional	200	.....
Miscellaneous	2,300	.....
Department D:		
Revenues	.....	48,000
Salaries	18,000	.....
Outside costs	12,000	.....
Material	200	.....
Travel	200	.....
Compensation insurance	120	.....
Old-age benefits taxes	80	.....
Unemployment insurance taxes	240	.....
Promotional	160	.....
Miscellaneous	600	.....
General Office:		
Salaries—general	2,500	.....
Salaries—accounting	3,500	.....
Salaries—executive officer	5,000	.....
Stationery and supplies	1,500	.....
Telephone and telegraph	2,400	.....
Auditing	800	.....
Legal	750	.....
Federal capital stock tax	250	.....
State franchise tax	600	.....
Gross receipts tax	270	.....
Fire insurance	450	.....
Liability insurance	180	.....
Office rent	8,000	.....
Light	1,200	.....
Postage and general	800	.....
Parcel post and express	3,000	.....
Interest received	.....	250
	$325,300	$325,300

COMMERCIAL LAW

Friday, November 10, 1944—9 a. m. to 12.30 p. m., only

READ THESE INSTRUCTIONS BEFORE WRITING YOUR ANSWERS.

State your examination number on each sheet. Do not sign your name. Designate each answer by its number, in margin at left of ruling. Do not rewrite the question either wholly or partly in your answer. Consider each part of each question before you write your answer. Write legibly. State answers clearly, completely and concisely. File sheets of your answers in the serial order of the questions.

Answer the questions as directed under each group. Papers entitled to 75 or more credits will be accepted.

Group I

Answer all questions in this group.

1 *a* Adams leases a store for business purposes from Black. He pays Black

an annual rent of $5,000. Adams also pays a tax against the land and building amounting to $500. What amount would Black report as gross income for Federal income-tax purposes? What deductions should Adams and Black take?

b On January 2, 1943, Jones paid $10,000 for a house, to be used as his residence, on which a bank advanced $4,000 as a first mortgage. He moved into the house at the same time. During 1943, the city levied a special sewer assessment of $475, which he paid during that year. Jones also paid $200 interest on the first mortgage, property taxes of $300, insurance premium of $50 on the residence, painting and other repairs $100. How may these items be treated for Federal income-tax purposes?

2 *a* Abbott gives his note to Brown, no interest being specified. Brown adds thereto a provision for interest and conveys the note for value before maturity to Coffey, who takes it without notice. Can Coffey enforce the note against Abbott for principal and interest? What is Coffey's position? Discuss fully.

b Andrews, holder of a note on which there are six indorsements, strikes out the second and third. Therafter he sues Hanson and Young, who are the fourth and fifth indorsers respectively on the note, which has been dishonored. Can he recover? State the rule.

c Anthony drew a check on the X Bank for $1,000 and delivered it to Belton for value, who indorsed it to Collins for value. Collins had the X Bank certify it. All transactions took place in a reasonable time. The day after the certification, the X Bank failed. Anthony and Belton both have ample means. What is Collins' position with regard to Anthony, Belton and the X Bank? Give reasons for your answer.

3 *a* Allen loaned money to Bass on Bass's promise to pay to Carlton a like amount which Allen owes to Carlton.

(1) Can Carlton recover from Bass?

(2) What principle of law is involved? Explain.

b Austin entered the employ of Bell under an agreement to remain for one year at the annual salary of $3,600 payable semimonthly. After working for seven months, Austin was offered employment by Curtis at the rate of $5,000 a year. Austin informed Bell and notified him of his intention to quit at once unless Bell paid him the said rate. Bell said, "I am in need of your services and can not afford to let you go. If you will remain with me, I will pay you the additional compensation at the end of your term." Austin said he would remain. At the end of the year, when Austin's term expired, Bell discharged Austin and also refused to pay him the additional compensation as he had agreed.

What are Austin's rights under the Law of Contracts?

c Name and explain at least *five* simple contracts that must be in writing to be enforceable under the Statute of Frauds.

4 *a* In a fire-insurance policy, what does an 80% coinsurance clause mean?

b What reason is there for such a clause?

c A merchant has a stock of merchandise worth $10,000, on which he has a fire-insurance policy for $6,000, with an 80% coinsurance clause. Fire destroys $4,000 worth of his merchandise. How much insurance can he recover? Explain.

d Is a contract of fire insurance assignable? Explain.

e Is it necessary that the person named as beneficiary in a life-insurance policy have an insurable interest in the life of the insured?

5 *a* A stockholder of a corporation indorsed in blank his stock, which he delivered to a bank to hold as collateral security for a loan. The stock was in the name of the stockholder on the books of the corporation. The corporation had notice of the pledge.

(1) Who has the voting rights on this stock?

(2) Who is entitled to the dividends?

b Arnold, an employee of Bays, stole from Bay's safe, to which he had access as an employee, a certificate for 100 shares of stock which Bays had indorsed in blank. Arnold sold the stock to Cain, from whom Dodd purchased the stock in good faith. The corporation had transferred the stock to Cain, who appeared on its stock books as the owner of record at the time of purchase by Dodd.

What are Dodd's rights? Explain.

Group II

Answer five questions from this group. Indicate the questions answered by a check mark (√) placed at the left of number on question paper.

6 Define and explain the following terms as used for Federal excess-profits tax purposes:

a Excess-profits net income

b Base-period years

c Average base-period net income

d Invested capital

e Excess-profits credit

f Specific exemption

g Adjusted excess-profits net income

h What is unused excess-profits credit?

i What should be done with unused excess-profits credit?

7 *a* Can a paper or document not executed as a will be incorporated by reference in a properly executed will? Explain.

b What is an attestation clause in a will and what is its importance?

c What laws govern the distribution and succession of property of an intestate decedent who owned personal and real property in several states?

d What are the duties of an executor?

8 *a* The law of what place governs the payment of interest?

b Is interest allowed on unliquidated open accounts?

c Is interest allowed on an "account stated"?

d When does interest begin?

e When does interest stop? Name *three* situations or instances.

9 *a* What classes of fixtures installed or furnished by the tenant are generally held to be removable by the tenant or his representatives?

b Within what time must a tenant's right of removal of fixtures be exercised?

c Arthur leases land from Baldwin for one year and erects a building on it for business purposes. At the expiration of the year, the lease is renewed for three years. The second lease is in writing and does not mention the building in any way. Before the expiration of the second lease, Arthur, desiring to terminate his tenancy, wants to know his rights to remove the building. Has Arthur the right to remove the building? Explain.

10 *a* An insolvent partnership agreed with creditors that the business should be continued under the supervision of a managing committee designated by the creditors until their claims were fully paid off out of profits. Are the creditors who are parties to this agreement liable as partners to the new creditors of the continued business?

b The partnership firm of Altman, Berkley & Calvert became bankrupt. Among the claims presented was an unpaid income tax due the United States by a partner, Altman. The tax was based on income he had received from the partnership business. Is the United States entitled to payment out of the firm estate in priority to firm creditors?

11 *a* What are the duties of the depositors to examine returned checks and what is the result if they fail to do so?

b What are the obligations of a depositor to examine bank statements of his accounts?

c What is the legal effect of a bank's certifying checks of its depositors?

d What is the bank's liability on certified checks?

e When does and when does not certification of a check discharge the drawer?

12 *a* Arms is trustee of the Jones estate. He appoints Bush his agent to perform his trust duties. Bush fraudulently misappropriates $1,000 of the trust funds. Arms, the trustee, is sued for the amount.

(1) Can Arms, the trustee, delegate his trust duties to Bush, his agent? Explain.

(2) Is Arms liable? Why?

b What is an auctioneer?

c Whom does an auctioneer represent?

d Name some of the implied powers of an auctioneer.

e Name *three* limitations to the powers of an auctioneer.

THEORY OF AUDITING

Friday, November 10, 1944—1:30 to 5 p. m., only

Read and consider carefully each question before answering. Write your answer clearly and concisely, being particular to express your own knowledge, for on that is based the rating. Avoid quotations from authors. Designate each answer by number and check (√) the number on the question paper, but do not rewrite the question as part of your answer.

Credit will be allowed not only for accuracy of answer but also for technic.

Do not sign your name to the paper. State your examination number.

Answer the questions as directed under each group. Papers entitled to 75 or more credits will be accepted.

Group I

Answer all questions in this group.

1-2 When enaged to certify a balance sheet, (*a*) outline your auditing procedure with reference to *each* of the following, (*b*) State how you would display each in the balance sheet:

(1) Reserve for income taxes
  (*a*) For an interim balance sheet
  (*b*) For a final annual balance sheet
(2) Reserve for bonds sinking fund
(3) Reserve for contingencies
(4) Reserve for restoration of leased property
(5) Reserve for postwar rehabilitation
(6) Reserve for depreciation

3 In the usual examination of the books and accounts of a commercial concern of medium size, state briefly (*a*) what the auditor is ordinarily qualified to pass upon, (*b*) what lies outside his field.

4 In addition to the usual audit procedure, what investigation would you make as auditor engaged to make the first audit of (*a*) a corporation, (*b*) a general partnership?

5 *a* What safeguards exist against padded payrolls?
b How would you use these safeguards as precautionary measures in conducting an audit?

Group II

Answer five questions from this group. Indicate the questions answered by a check mark (√) placed at the left of number on question paper.

6 In closing the books at the end of a season of a seasonal business, such as a dry-goods business, discuss from the auditor's viewpoint your handling of invoices covering purchases and expenses for the next season's business. What precautionary measures should be taken?

7 Name *five* misconceptions held by many of the general public regarding the position, duties and responsibilities of a certified public accountant.

8 To what extent is it an auditor's duty to concern himself with the validity and legality of transactions coming within the scope of his audit?

9 A committee of creditors engages you to audit the records of an individual engaged in the business of real-estate operator, who is suspected of issuing bogus mortgages. The available records are an obviously incomplete cashbook, practically all of the cancelled checks, certain bills, vouchers, correspondence and a partial list of properties and mortgages owned, covering the suspected operator's transactions.

State in detail your method of procedure to ascertain the extent of the fraud and the disposition made of the funds.

10 Auditing procedure recognizes certain distinctions in the following types of engagements:

a Application for a bank loan
b Suspected misappropriation
c Bond-issue flotation

In *each* of the above types of engagements, outline the important points of difference in the auditing procedure for each of the following items:

(1) Cash on hand and in bank
(2) Accounts receivable
(3) Capital assets
(4) Statement of profit and loss

11 When engaged to make a detailed audit and completely vouch all transactions, state what you consider satisfactory substantiating vouchers for *each* of the following: (*a*) cash receipts, (*b*) cash disbursements, (*c*) purchases, (*d*) return purchases, (*e*) sales, (*f*) return sales, (*g*) journal entries, (*h*) petty cash disbursements.

12 You are engaged to prepare a balance sheet and statement of profit and loss for credit purposes as of June 30, 1944. You find that a war contract was cancelled prior to the audit date. You commenced this audit in August following the closing date. You find that the client has charged to accounts receivable and credited to contract sales certain items of cancellation expense, viz, an extra week's separation wages and transportation expenses of employees laid off prior to June 30th. You also find some work-in-process inventory covering the cancelled contract upon which $8,000 was expended subsequent to June 30th for labor and material, etc. You find that the contract is not clear as to the propriety of the lay-off wages and transportation outlay as proper cancellation expenses, and the management agrees with you. There are also some special material and tools in the raw material and supplies inventories, that were special for this cancelled contract. What problems do the foregoing items raise for the auditor in presenting the financial statements, and how would you dispose of these problems?

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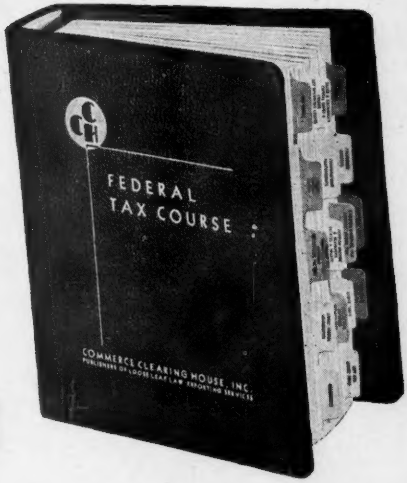

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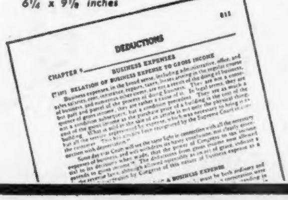

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PUBLISHERS OF TOPICAL LAW REPORTS

NEW YORK 1	CHICAGO 1	WASHINGTON 4
EMPIRE STATE BLDG.	214 N. MICHIGAN AVE.	MUNSEY BLDG.

PRINTED IN U.S.A.